PUBLISHED QUARTERLY

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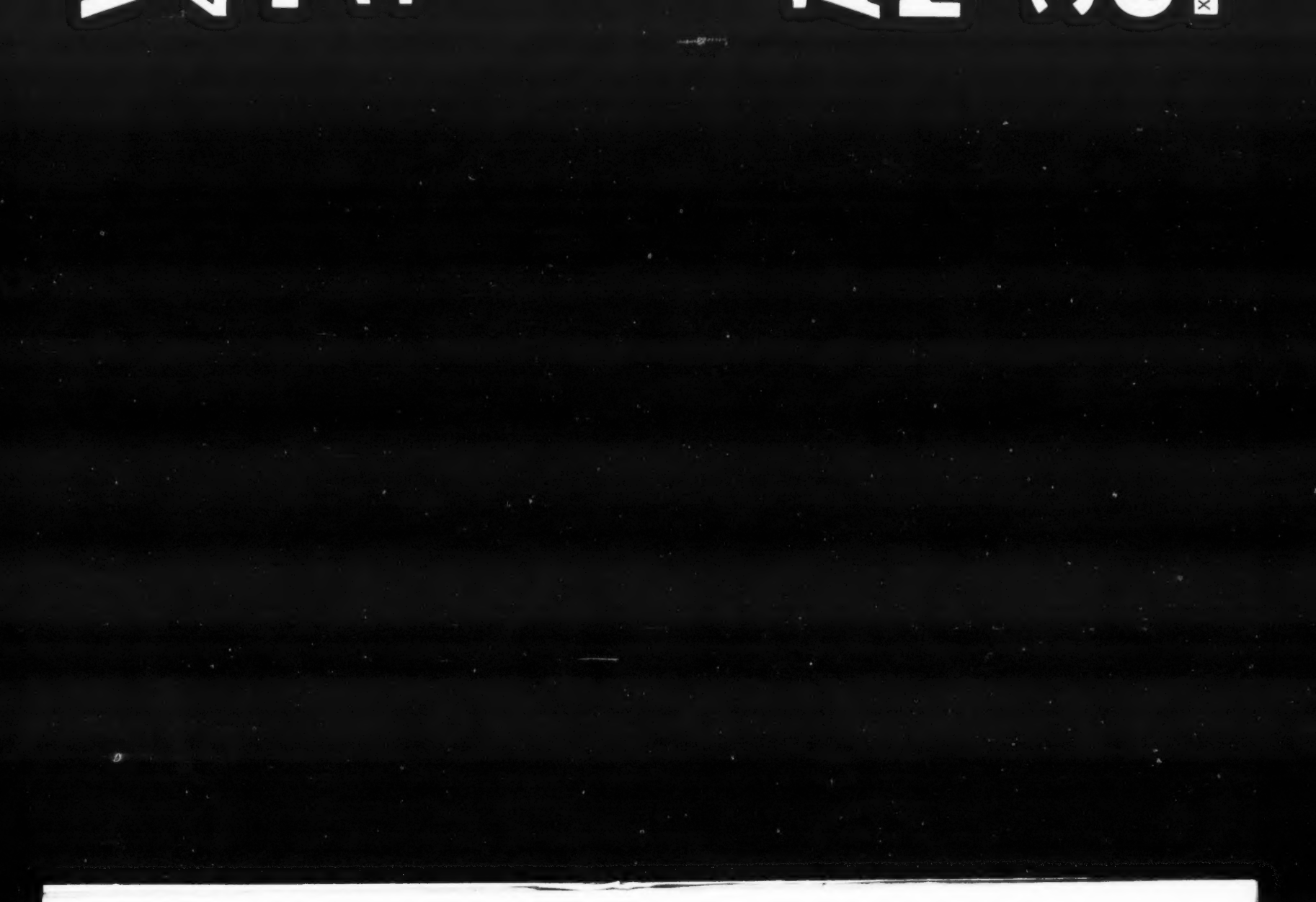
VOL. IV, No. 1 JANUARY, 1936



The JOURNAL *of the*

AMERICAN INSTITUTE OF REAL ESTATE APPRAISERS

of the National Association of Real Estate Boards

K. Lee Hyder, *Editor-in-Chief*
Harry Grant Atkinson, *Managing Editor*

Volume IV | January, 1936 | Number 1

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Published quarterly by the American Institute of Real Estate Appraisers of the National Association of Real Estate Boards at 22 West Monroe Street, Chicago, Ill.

Entered as second class matter January 17, 1933, at the post office at Chicago, Illinois, under the act of March 3, 1879. Subscription rates: $5.00 a year; $1.25 a copy. Remittances may be made by personal checks, drafts, post office or express money orders, payable to the American Institute of Real Estate Appraisers, Chicago, Ill. Printed in the United States of America.


OFFICERS and GOVERNING COUNSELLORS
of the
American Institute of Real Estate Appraisers
1936
HERBERT U. NELSON
Secretary
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OFFICERS and GOVERNING COUNSELLORS of the American Institute of Real Estate Appraisers

1936

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STATEMENT OF THE OWNERSHIP, MANAGEMENT, CIRCULATION, ETC., REQUIRED BY THE ACT OF CONGRESS OF MARCH 3, 1933

Of The Journal of the American Institute of Real Estate Appraisers of the National Association of Real Estate Boards, published quarterly at Chicago, Illinois, for October 1, 1935.

State of Illinois, } ss.
County of Cook. }

Before me, a Notary Public in and for the State and county aforesaid, personally appeared Harry Grant Atkinson, who, having been duly sworn according to law, deposes and says that he is the Business Manager of the Journal of the American Institute of Real Estate Appraisers and that the following is, to the best of his knowledge and belief, a true statement of the ownership, management (and if a daily paper, the circulation), etc., of the aforesaid publication for the date shown in the above caption, required by the Act of August 24, 1912, embodied in section 411, Postal Laws and Regulations, printed on the reverse of this form, to-wit:

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2. That the owner is: (If owned by a corporation, its name and address must be stated and also immediately thereunder the names and addresses of stockholders owning or holding one per cent or more of total amount of stock. If not owned by a corporation, the names and addresses of the individual owners must be given. If owned by a firm, company, or other unincorporated concern, its name and address, as well as those of each individual member, must be given.)

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HARRY GRANT ATKINSON.

Sworn to and subscribed before me this 21st day of October, 1935.

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A Snowball Rolling Downhill

WHO cannot remember in his school days the thrill that came with the soft "packing" snow, the kind that made the perfect snowman? And then the fun in starting at the top of a hill a lump of baseball size, watching it roll down and down, ever increasing in diameter and leaving a clear and widening track behind! The size of the final "ball" was directly a function of the length of the hill, and it had great potentialities at a later date for fortification or as a base for elaborate housing developments. Left alone, this Brobdingnagian snowball might last for weeks after the basic material from whence it sprung had all disappeared, unless—as sometimes happened—it strayed from the path on the hillside and ended with a crash against old man Jones' barn—remember?

The trick was supposed to be easy—so simple in fact that the figure of speech "as easy as rolling a snowball downhill" may be heard in all languages, at least those spoken in the fortunate areas where the populace is blest with snow.

The idea finds its counterpart in every walk of life. Look at the progress of the American Institute of Real Estate Appraisers; not quite so simple as the rolling snowball perhaps but to a large extent analogous and the result far more permanent. Incidentally it is still rolling!

The people of this country are becoming appraisal-minded. The "snow" has been here for generations, probably ever since the original concept of property and value was laid down in the Garden of Eden. It remained for the Institute, however, to start the impetus that is making appraising a real and vital movement to the layman—to the man in the street. The initial effects are succeeding beyond the most sanguine expectations, and it will keep rolling now for a long time on its own power.

We must not forget, however, that there is danger at the bottom of the hill! *Our ball* must be carefully guided to create the greatest good and the most permanent results. Get behind and push a little, —but keep her on the right track!

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The High Cost of Low Cost Appraising

By GEO. H. COFFIN, JR., M.A.I.

PENNY WISE, POUND FOOLISH is an old, old adage; but just as true today as many years ago when it was written. It is another way of saying that false economy and lack of proper selectivity in an appraisal staff temporarily disguises foreclosed real estate as loans.

Unfortunately, it is lawful for any man to call himself a real estate appraiser. Equally unfortunately, many of the important employers of valuation services have little or no conception of the specialized educational and experience qualifications of a competent appraiser, and are willing to accept at face value the ofttimes exaggerated claims of ability without pausing to study the proficiency of the individual for evaluation work. Mere letters from financial institutions or prominent individuals are usually the limit of qualifications required. The employer does not give due consideration to the fact that a recommendation is easier to write than to face the embarrassment of a refusal, or that the party signing the endorsement probably has no true knowledge of what constitutes ability to appraise real property in this advanced era of appraisal progress.

The very man who will employ an appraiser in the usual haphazard manner, seeking generally to select the man who will perform the service for the least cost —and who usually gets just what he pays for—would not for a second trust the legal affairs of his business or lending institution to a lawyer whom he did not first scrutinize with the utmost care, and employ only after weighing the background of the attorney, his successful experience, his qualifications for the specific work required, his honesty, and his standing in his profession. He pays willingly for the quality of this service which his careful investigation has disclosed. Nor would this same employer of appraisal services personally go under a surgeon's knife, or allow any member of his family to do so, without painstakingly inquiring into the reputation of the surgeon and his ability to perform the operation; neither would he seek the man, in preference to others, who would operate at the cheapest price. No, indeed! he would pay without hesitation a proper professional fee.

And yet this same employer will hazard the investment of large sums of money

An address delivered at the California State Real Estate Convention in San Francisco, October 8, 1935.

—depositors' money, taxpayers' money, trust funds—to valuations established by men who lack mature judgment, specialized training, or education in the intricate and complex field of real estate economics, usually because he has no realization of the advancement which has professionalized valuation procedure in the past decade. The low standard of compensation which he is willing to pay tends to attract inexpert services and proves to be a most costly economy when untrained valuation judgment results in foreclosure and the ownership of property worth far less than the loan made upon it. Such employers screen their lack of foresight by declaring that national or world economic conditions are solely to blame, rather than admitting that less loss, and in innumerable cases no loss, would have been sustained if modern appraisal procedure had been applied to each property before the loan was made.

There never was a time when the necessity for a thorough understanding of valuation principles was more completely recognized by the leading appraisers of the nation than during recent years. Men who had been trained in the best schools and colleges awakened to the realization that certain of the formerly accepted valuation theories were hopelessly insufficient and in many instances faulty, particularly the weight which had been given to reproduction costs, and the lack of weight which had been given to analyzing the economic justification for the existence of each structural improvement on its specific site, regardless of reproduction cost. The United States Supreme Court held this fundamental conception of proper appraisal procedure to be correct when it ruled: "The value of a property results from the use to which it is put, and varies with the profitableness of that use. . . There is no pecuniary value outside of that which results from such use. . . The amount and profitable character of such use determine such value."

COMPLEXITY OF THE APPRAISAL PROBLEM

The years of depression have glaringly revealed the stern necessity of approaching each appraisal problem by many complex highways. Not by any single approach can valuation be measured. The competent appraiser does not reach his conclusion by valuing land, concrete, lumber, labor and brick by themselves, but by the evaluation of environing factors, trends of growth, stability of districts, taxation and assessment burdens, historical backgrounds, and the effectiveness of purchasing power. His investigations must include the social and income level, the results of wise or unwise zoning or deed restrictions, the sufficiency and cost of utilities and transportation. His study embraces an analysis of competitive influences as well as income, past, present, and prospective, and the application of proper capitalization rates. He must consider changes in the value of money and determine varying economic lives. He is required to measure supply and demand, over-improvements, under-improvements, and to weigh many other factors which have a direct value-influence, plus or minus, on the specific property under consideration.

During recent years in particular the insufficiency of man's former training, whether in the appraisal field or other lines of business and professional endeavor, has been brought vividly into the foreground. The best equipped minds in appraisal thought have used the financial tragedies in their research; and countless post-mortems have been performed on distressed properties which have become the merchandise of institutions that once considered themselves to be exercising supposedly superior judgment. These analyses have mercilessly laid bare the contribu-

tion of the unqualified appraiser to the recent distress of real estate.

These studies have revealed in many cases that the properties which caused the downfall of institutions were good even under the most distressed of market conditions; the fault could be directly traced to fictitious and wholly unwarranted valuations which became the basis of exorbitant loan commitments. It is a sad commentary that many lending officials, the real custodians of public funds, drew salaries commensurate with their titles for approving these erroneous valuations which eventually converted funds entrusted to their care into frozen properties.

I do not for one moment contend that the analytical judgment of competent appraisers could have averted all of the losses which have been sustained by our lending agencies. Such a thought would be manifestly absurd because uncontrollable economic forces withered price levels of commodities as well as properties beyond the ability of man or government to stem. I mean to lay stress on thousands of properties which, had they been properly evaluated before excessive loan commitments were made, would have remained sound security during every period of the depression.

The valuation conclusion of the appraiser is usually the difference between making a safe loan or acquiring a property under foreclosure, regardless of the intention of a loan committee, who, not being appraisers, must of necessity accept the lending agencies' valuation reports.

The indiscriminate use of reproduction cost as a major determining element of value has been the cause of scores of foreclosures. Its use has been quite universal with many appraisers because it is simple. Just locate a sum designated as 2 for land value, add another sum designated as 3 for building cost, or reproduction cost less accrued depreciation, and the answer must be 5. The typical loan committee applauds these appraisals because it can understand them. Its appraisers must be exceptional to determine value so accurately—2 plus 3 equals 5. It had been well worth a five dollar bill—slightly plus or minus—to possess this intelligent answer, upon which to apply a loaning policy of 40, 50, 60, or some other percent, and thereby unwittingly acquire another real estate ownership, with possession postponed by foreclosure.

Had this same loan committee been told that the sum of 2 plus 3 equalled 1 or zero, the appraiser would doubtless have been discharged for reaching such a conclusion of seemingly abstract absurdity. The committee erroneously believed that land plus building must equal value—it always had —the assessor said so—their judgment said so, and common sense seemed to say so.

A Typical Case

I quote a typical instance of the fallacy of relying upon cost as evidence of value in the case of a construction loan. The owner of a lot worth $5,000.00 proposed to build a four-family building containing 20 rooms costing $15,000.00. The five dollar appraisal answer was $20,000.00. Competent study revealed that the building as designed was unwarranted in the neighborhood which was populated by a low income social level. The rental units on this site, if all other factors had been in balance, could not have been expected to produce more than 60 percent of the income which they would if the same building had been constructed in a location where the family income level would assure a justified return on the capital investment.

Furthermore, the plan of this structure

was such that only one of the units was on the street front of the building; the entrance to the remaining units were progressively toward the rear of the lot, with the outlook and light and air obstructed by adjoining buildings; the plans provided for locating one of the two bedrooms downstairs in each unit with the single bathroom upstairs.

The property was environed by multi-family buildings with an average age of fifteen years, thus assuring the new structure a short economic life. Building and race restrictions had expired. The property was located in a Municipal Improvement District that had just defaulted on both principal and interest, also in a Mattoon Act District in which the rate per $100.00 assesed value had increased from $5.00 to $13.00 during the past four years. The location was on a heavy traffic artery and only 50 feet from a crossing signal bell. There were many other adverse influences affecting this property, none of which were uncommon. The net income expectancy, reduced to present worth for the relatively short economic life, plus the present worth of the reversion of land, produced a value of the whole of $10,000.00 —not $20,000.00. A sum equal to the fair market price of the vacant lot had disappeared, plus over thirty-three percent of the cost of the building.

The fifty percent loan of $10,000.00 on the summation cost of this property was clearly a 100 percent loan on its value. It was just another foreclosure in the offing; another real estate ownership for the lending institution, removed in time sufficiently for depreciation to take its toll. Deduct loss of interest, foreclosures costs, reconditioning charges, sales agents commission, title costs, and by this time 2 plus 3 are no longer 5; the addition totals less than 2; so the lending agency blames economic conditions, the brain trust, the threat of war several thousand miles away, or the unbalanced budget.

Now what was the real cost of this five dollar appraisal? Foreclosure costs $450.00 to $550.00; loss of interest, over $700.00; reconditioning expense $500.00; sales commission $400.00; title charges $100.00. Over $2,000.00 of the depositors' money vanished. It appears to be just another incident of the depression, whereas the entire loss occurred because five dollars, plus or minus, was the price put on the appraisal brains before the loan was made; and to make matters worse the institution expected its appraiser to evaluate three or four similar properties in a day, instead of instructing him to spend perhaps several days, if he possessed the required analytical judgment, to gather and analyze the multitude of data essential to issuing a sound valuation report on one.

TRAGEDY OF BLIND APPRAISALS

Office buildings, industrial properties, apartments, hotels, farm and subdivision acreage, which have been pledged as security for large institutional loans and bond issues, have been blindly appraised on a reproduction cost basis, without regard to a complete economic analysis. The false values thus established have lured needless millions of dollars to the financial graveyard. Such appraising is the refuge of the ignorant and the doom of confidence and capital.

It is difficult to understand why a proper fee will be paid without question by lending agencies for the protection of a policy of title insurance that deals with the visible written records, and at the same time refuse to pay a just fee for the protection of an appraisal that deals with both the visible and invisible records, for if the latter is founded in faulty judgment then the title policy which insures the subject of the error has been a needless waste.

We now appear to be on the upswing of another real estate market; new loans, large and small, are being sought and the public is being encouraged to borrow. Lending agencies have to carve out many new policies of procedure if the sad consequences of the past are not to be repeated in the future.

As the fundamental safety of capital in mortgage loans rests largely on the soundness and expertness of the judgment of the appraiser, it appears high time that well-intentioned executives who employ appraisal services be asked to study the foundation, the appraiser, before they build again; that they learn from experienced authorities what constitutes qualifications properly to appraise property. They will then realize that a competent appraiser, to become such, is a product of years of specialized training as difficult as any profession; that avoidance of financial pitfalls resulting from seasoned valuation judgment entitles the properly qualified appraiser to compensation in keeping with the great responsibility which is his.

Experience has shown that the minds of lending agencies should be disabused of the fallacy of belief that the importance of real estate loan commitments rests primarily with their committees or executive officers. This is not a criticism of the typical loan committee, which is highly important in its functions, composed in part of men very efficient in their own particular field of the lending agency's activities, which, however, usually has nothing to do with the complex problems involved in the proper evaluation of real estate. The remainder of the committee is often composed of men who devote a mere fraction of their time to service on the committee, being primarily engaged in their own business or professions, which also has nothing to do with competent conclusions of property values. Thus the figures of the appraisers, right or wrong, are accepted as conclusive valuation evidence upon which to make loan commitments.

Lending executives must realize the danger of accepting a record of many years past service of an appraiser as a determining factor in qualifications, without a thorough investigation of the quality of the valuators' judgment and his knowledge of the mechanics of his complex craft. Equally hazardous is the somewhat general belief that an appraiser is the product of a few days or weeks of training, or that construction cost estimating or real estate sales experience constitute sufficient qualifications.

These executives could well consider the establishment of rigid examinations for their appraisers, dictated by experienced valuators and not solely by officers or loan committees.

Again I say that lending agencies should learn to place far greater importance upon the training, experience, and judgment background of their appraisers, to reward properly, and to recognize educational efforts in which they may find some of their own staff engaged.

Experience is often an expensive teacher. This fact carries the suggestion to employers of appraisal services that they inventory the foreclosed real estate that has come into their portfolios to determine the large percentage that is needlessly there and not properly chargeable to the depression, but rather to their own shortsightedness in undervaluing the importance of their appraisal personnel and securing for clerical compensation, a type of service which should have been professional in character.

Qualified Appraisers Are Scarce

It is true that most competent appraisers, men whose names stand at the front

of valuation thought and progress, have been asked by agencies of government to do wholesale appraising during the great national emergency for fees or salaries which were, and are, so meager, that had they not been considered as a contribution to national recovery, or to relieve human distress, would not have been considered. Yet because the trained appraiser has responded to this call an attempt is being made by certain lending agencies that are not dealing in relief loans to establish the present worth of his service at the offtimes insignificant fees he is known to have received while thus engaged. Such an attempt is predestined to failure. The experience and training of the competent appraiser has very thoroughly equipped him to employ his time in other branches of his profession. True, appraisers of a type can always be secured in abundance—men who will continue to render valuation reports of a sort, which in far too many instances have contributed heavily to the distress of the past. The trained valuator cannot be expected to meet competition of this nature.

This recent urgent need created by government for regimentating an army of appraisers exhausted the limited, trained supply; and raw recruits became generals overnight. It appeared that men with little or no former training, experience, or judgment in valuation procedure, were given the title of appraiser, by some agencies, particularly, it seemed, if their political affiliation could rate at one hundred. We are destined to observe before very long that lending agencies which tolerate such qualifications are themselves the wholesale purchasers of much of the real estate temporarily masquerading as mortgage loans.

Our lending agencies and our trained valuators are confronted today with this horde of men labeled as appraisers, who having had appraisal assignments are competing for work which requires skill and experience. The foundation will be well-laid for further national aid for our lending agencies both private and governmental, if employers of appraisal services do not promptly and properly learn to discriminate. In this connection I wish to express my great respect for several of our lending executives who, having been trained as appraisers themselves, and therefore possessing the ability and knowledge of proper selection of their staffs, are battling odds beyond their control to place merit as the primary consideration in their valuation personnel.

In conclusion, I express the hope that the high cost of low cost appraising may be better realized in order that needless losses and sorrows of the recent past may not be repeated tomorrow, and that all real estate mortgage investments may, in the not far distant future, attain and retain the confidence to which they are rightly entitled when born as the brain child of sound appraisal judgment.

♣ ♣ ♣

The Appraisal Process

By K. LEE HYDER, M.A.I.

THE appraisal of real estate is taking on complications few of us even dreamed about a few years ago. This has been brought home to me more and more during the past few months. Attempting to direct the educational destinies of the Institute through the Education and Research Committee is a whole lot like driving a sixteen-cylinder car down a strange road on a steep hill without brakes —matters are inclined to get out of hand. Just to give you a sketchy idea of what we are up against, the Committee received a letter the other day from one of our distinguished M.A.I.'s suggesting various things that were wrong with its current activities (or lack of them). Among other things, the Committee's endeavors were termed "smug" and "cabalistic." I had a general idea of what the writer meant by the first, but am frank to state that "cabalistic" had me sunk. Taken alone I might have thought it complimentary, but accompanied by "smug" it raised certain doubts. Anyhow, I looked it up in the dictionary and had a bad couple of hours before I finished. Here's the rather uncertain trail —via Noah Webster:

Cabalistic—pertaining to cabala—a kind of occult theosophy; esoteric doctrine.
occult—hidden from the eye; mysterious.
esoteric—secret, private, for the initiated only.
theosophy—knowledge of things divine; philosophy or mysticism pertaining to intercourse (physical) with God: pantheistic evolution doctrine of metempsychosis.
philosophy—a systematic body of phenomena covering general conceptions or principles.
Pantheistic—doctrine that universe as a whole is God.
metempsychosis—passing of soul at death into another body; transmigration of souls.

that is—in short:

A secret mysterious knowledge, ritualistically presented, of a systematically organized body of phenomena relating to physical intercourse with God and the transmigration of souls.

"So that's what we've been expounding all these months," I thought. At that, it might not be so inappropriate as relating to the appraisal process. The estimating of *value* under present conditions takes on something of the occult. The appraiser's standard equipment today might well include the wand and mantle of a Merlin and the crystal globe of an oriental fakir.

Seriously, however, there is food for thought in this criticism. Perhaps we should hesitate for a moment and see just where and how we are going. There isn't anything secret or mysterious about appraising. Difficult? Yes, at times—but in the final analysis the appraisal process is nothing more than hard work followed by the application of common sense. It may be that in our efforts toward the development of a more logical and orderly procedure we have unwittingly tended toward confusion rather than clarity. Today, therefore, I am going to get right down to "brass tacks," and I feel sure—if I am successful—it will be shown that we are all very close together in our fundamental thinking. Certainly we have gone a long way in the past two years.

DEFINITIONS

"Hard work" and "common sense"—I repeat that these, the two basic qualifications for success in any endeavor, apply most forcefully in appraising. Hard work is required in digging up all of the facts and infomation concerning and surrounding a property being subjected to an appraisal, just as it is in digging the trenches and gathering the materials from which to fabricate a structure above the excavation.

Common sense is needed in executing the entire job in an efficient manner and with the least possible waste of effort to produce a suitable result. Obviously, of course, the appraiser must possess the necessary qualifications and experience for the particular work involved. Under skilled hands the exercising of plain "common sense" may be accorded a loftier title—such as "sound judgment."

When we speak of the data program we mean simply the preliminary decision and outline of the type and extent of information that appears to be needed for a particular problem. A valuation approach signifies nothing more involved than the consideration of a particular type of factual information and its probable influence on the desirability and value of the property under appraisal.

A practical discussion and understanding of the appraisal process must begin with the acceptance of certain axiomatic principles, and perhaps other logical assumptions that result from normal human behavior under given conditions.

Appraising is not an exact science—it has been termed an "observational science." Value is created by human need and desire. The value of a thing is the relative desirability as compared to other things. The appraiser attempts to express this relative desirability in terms of money as of a certain date when he makes his valuation; that is, he is making a value estimate (so much for the "highbrow" discussion. I am determined from here on to steer as far away as possible from all matters cabalistic!).

THE NATURE OF THE PROBLEM

Our practical job as appraisers is to make, express, and support the reasonableness of an estimate of value of a given property—for a particular purpose—as of a certain date—expressed in money. As I conceive the appraisal process, therefore, it is simply the orderly procedure that enables us to accomplish this in the easiest and most convincing manner. Immediately we are faced with the first and basic consideration, namely, the nature of the problem.

As a concept, property consists of the rights to the ownership or possession of anything, whether it be tangible or intangible in character. For our purpose we can short circuit the economic discourse and assume that a property consists of the rights to a parcel of land, a house and lot, an office building or a manufacturing plant—in other words, a physical property, embracing only such intangibles as are attached to a physical property by virtue of established tenantage or a going business.

Now, if the problem involves an appraisal of a single family residence, a farm, an apartment, or some other type of property, it is obvious that the information (that is, the data which should be assembled and analyzed in attempting to appraise the property), may vary both in nature and in relative importance. Again, if the appraisal is required for purchase and sale, insurance, taxation, or other specific purposes, the character of data required may be more or less uniform for any one type of property; but the weight accorded may change materially. We are thus led to our first axiomatic conclusion:

1. *The type of property and the purpose of the appraisal are foundational to the application of the appraisal process.*

The next step in the development of the appraisal process is predicated upon a consideration of the use of the property, not necessarily the momentary use or degree of such use, but rather the use to which it may be put or readily adapted. As a concept for purposes of valuation this may be termed "value for use." Normally we adopt what in legal parlance is termed

"the highest and best use." However, this highest and best use is a question of futures, just as value is dependent upon the future, and may contemplate a differing, poorer, or better use than the property is now enjoying, or to which it might have been devoted in the past. For example, the basis of "value for use" might contemplate a continuance of normal use, a conversion to meet changing conditions, a special and higher potential utilization, or a total or partial liquidation. Our second axiomatic conclusion may then be stated:

2. *The use of a property or the use to which it may be put or readily adapted is foundational to the application of the appraisal process.*

Along with these basic conclusions or principles we must accept, of course, the more generalized economic laws, such as the effect of "supply and demand," and other forces influencing human behavior and desire automatically brought into our problem. It is my opinion, however, that such forces enter only academically into the appraisal process, and that their influence is, to a very large extent, already discounted in the very data we assemble for valuation purposes.

Before leaving this general discussion there is one more significant factor or economic "law," if you wish, that is operating to a more or less degree in every appraisal undertaking. This embraces more than a valuation concept, since it represents our means of stating our conclusions in measurable terms—in terms of money. We will state the principle first, and discuss it thereafter:

3. *Capital tends to seek a proper level of return in accordance with the risks involved in its investment.*

That is, other things being equal, capital invested in an enterprise tends to produce a return consistent with the risks surrounding such endeavors, and is thereby conserved. To the practical appraiser this means that cost, under conditions of balance and stability, is a proper measure of value.

"But," you say, "this is heresy! *Cost* is *never* a measure of value. That is one of the fallacious theories that our Institute has been attempting to overcome ever since its founding." Let us, however, consider this dispassionately for a moment. Every legitimate apartment house and every store building project in the country today was, at the date of erection, considered to be a sound investment, worth at least what it cost, and with every expectation of enhancement. I am excluding, of course, the palpably ill-conceived and overfinanced mistakes of the 1920's. A cross-section of the operations of a large number of properties of the same type, all new and economically justified, would then have developed a rate of return that was recognized by capital as the normal for the risks involved.

It is when we take the next and more difficult step in the isolation of a single property, under changed conditions, that *cost* loses its status as a direct measure of value. We must also remember that cost does not necessarily signify either the first cost of constructing a property, or the theoretical cost of reproducing it. It may just as well be used to define the investment of a present owner representing the *price* he paid to acquire it. This cost, it is true, is more properly defined as price; to the owner, however, it is entered on his books as *cost;* and the appraiser must reckon with it to some extent when he appraises the property for this owner.

Returning to the influence of cost on value. It cannot be tossed aside, even by those who argue that *income* is the true yardstick of value. The amount of income or prospective income is meaningless unless the appraiser is also informed as to the rate which capital would demand in

purchasing such income; that is, the rate of capitalization. This rate will vary with the type of investment. It will also vary with general business and economic conditions. Relatively, however, as compared to differing forms of investment, a more or less constant ratio holds. All swing from a fixed center—from the only stable point of departure that exists—that is, the *amount* of capital tied up in the property producing the income or which might be required to develop its equivalent under similar conditions of risk.

THE APPRAISAL PROCESS

With a proper understanding of these fundamentals we can proceed to develop *the appraisal process* with more assurance. So far, at least, we may admit that there is nothing complicated or technical involved. Most of the points discussed would be plain enough to the layman as well as to the appraiser.

As previously stated, the appraisal process is simply the orderly procedure required in making, expressing, and supporting a value estimate. And what are the materials and the tools with which to work?

Let us take these up in order. The materials consist of the information bearing upon the property for the purpose appraised, in short, the data.

The tools are the mechanical means used in interpreting these data and relating them to the problem in hand. The reasonableness of the result will depend upon the skill of the appraiser, just as in any other human effort.

Of what do these data consist? Probably, and usually, of a vast number of items of widely differing character. They will include statistical facts concerning the city; the character of the neighborhood and the surrounding improvements; the availability of similar properties; the public's viewpoint as shown through sales and holding prices; the character, layout, condition, and reasonable cost of reproduction or replacement; the operating status represented in existing tenantage, occupancy, revenue, expenses, and income, current and potential; the availability of capital for investment; factors bearing upon return and risk; and a host of others of greater or lesser importance.

Facing the necessity of assembling and interpreting information covering such a varied range, it is logical to adopt some system or order of classifying the types of data in a form for easier interpretation. We find immediately that these data may be readily grouped into two classes: first, those relating to the property itself; and secondly, those influencing but not a part of, or appurtenant to, it. We also note that the first class may be subdivided into items relating to the physical property: (1) to its character, design, cost, etc., and (2) to its use, occupancy, tenantage, and income.

In studying the second class of items we perceive that they cover a wider range of less direct application. Included therein, however, are factual data concerning the sales and holding prices of comparable properties; the trends of occupancy and rentals; and other more or less tangible information. A little more study and logical reasoning leads to the conclusion that these comparative data are of unusual significance, that in fact they represent the least common denominator already developed from a maze of other data.

"Perhaps", we say, "this is going to simplify the problem immeasurably." Population growth, bank clearings, industrial employment, per capita income, and even the neighborhood factors of schools and stores, local transportation, and public utility services and costs, must already have been largely ironed out to the satis-

faction of all parties before the transactions took place.

PROCEDURE

And now our feet are on the ground once more. Common sense comes to the rescue and cabalism gets another set-back. We have reduced the appraisal process to a consideration of *three basic approaches to the value estimate.* Three of them—and here they are:

The Comparative Approach
The Reproduction Cost Approach
The Income-Capitalization Approach

By the Comparative Approach we imply the assembling of all factual data concerning the sales, holding prices, and other information upon properties more or less similar and usually in the same neighborhood; thereafter, examining these data, weighing the factors involved, and then relating or comparing with the property under appraisal. It might be termed the use of the valuation of the public in applying the appraisal process.

The Reproduction Cost Approach is simply the making of a cost estimate—the estimating of the reasonable investment that would be required under current market conditions to acquire a similar and equally desirable parcel of land and construct thereon an identical structure. It involves, however, a further step—one of a comparative nature; that is, the estimating of the relative condition and desirability of the existing structure with the one which is being theoretically constructed new. The measure of such deficiencies is called *accrued depreciation.* Our only purpose in bringing this subject into this discussion is to round out the principles involved.

The Income-Capitalization Approach deals with the future operation of the property—the monetary returns that may be reasonably anticipated. It involves data of a more speculative nature and also embraces comparatives. Certain data under the Comparative Approach is developed by someone else's application of the Income-Capitalization Approach. Furthermore, the consideration of the income potentialities requires a study of comparative returns from similar and differing forms of investment.

In accepting these three basic approaches it must not be inferred that no consideration need be given to the general economic condition of the city or the neighborhood. Far from it. These must undoubtedly be weighed—sometimes directly, sometimes indirectly—before we reach our final value estimate. They are to be considered, however, more in the light of influences that enter into our interpretation of the data of a more concrete nature.

While the use of each of these three approaches is essential, at least in principle, to every appraisal, the weight and importance may vary widely depending upon the problem involved. An appraisal of a building for insurance purposes, for example, would rest almost entirely upon the result of the Reproduction Cost Approach. For financial purposes, however, if tenantage and income were restricted, the Income-Capitalization Approach might be controlling. Of course I am speaking along practical lines here. Strictly, an appraisal for insurance purposes may not be a value estimate at all. Frequently it is nothing more than an amount which it is estimated would provide reasonable protection of capital in the event of a loss by fire or other cause.

However, there are other factors that may throw greater or less weight on any one of the approaches. In a properly balanced property, that is, where the improvement develops the "highest and best use" for the land, the Reproduction Cost Approach is most significant and may be

controlling. In a property having a definitely misplaced improvement it is probable that the Income-Capitalization Approach would form the upward limit of value.

This leads to the conclusion that in undertaking a definite appraisal engagement, and having the problem defined, much time may be saved by making a preliminary survey of the neighborhood and inspection of the property. It may be readily apparent from this cursory investigation that one of the three approaches assumes the greatest importance, and the detailed studies may be carried out accordingly, minimizing the others proportionately.

THE NECESSITY FOR INTERPRETATION

There is one more principle that might be discussed at this point. It concerns the upward limit of value controlled by the three approaches. It may be stated as another axiomatic truth:

4. *A property cannot have a value in excess of its cost of reproduction new, the price at which an equivalent and equally desirable holding can be acquired, nor in excess of the amount upon which it is capable of producing a return consistent with that expected from investments at similar risk.*

This statement has apparently been subject to some differences of opinion. I doubt, however, that a basic difference in thinking exists. In my opinion it rests largely upon the limitation we place on what constitutes "a property." To illustrate the point. Assume a property, say an apartment house, modern and virtually new, having a reproductive cost, including the land, of $100,000.00. At the moment it is filling a real need and is occupied 100 per cent at rentals somewhat higher than the average for similar apartments in other equally desirable but more highly built-up sections. For simplicity we will further assume that it is producing a net income, after all expense and reasonable reserves, of $10,000.00 per annum; and that 8 per cent is the recognized proper weighted rate for such class of investment, including provisions for amortization. The capitalization of $10,000.00 at 8 per cent produces a capital amount of $125,000.00.

Applying the above principle, we would apparently have to limit the value to $100,000.00, that is, the reproductive cost, in spite of this unusual earnings status. Many students of appraising have taken the position that neither figure is sound. They argue that the net income above the fair return is more hazardous and should therefore be subjected to a higher capitalization rate. Taking 8%, or $8,000.00 let us say, for the fair return on the reproductive cost, they consider the remaining $2,000.00 as "surplus income" which might more properly be capitalized at perhaps 20%. This would result in an increment of $10,000.00 added to the reproductive cost, or $110,000.00 as the value estimate. Certainly this appears to be a logical and reasonable solution.

It is my opinion that this answer can be reconciled with the principle stated—and in fact rather tends to support it. Just what is the property we are valuing? Is it just the land and the structural improvements thereon? I don't think so. The established tenantage and resulting income constitute an integral part of the property —an intangible asset, perhaps, but nevertheless real and, to a certain extent, more desirable and valuable than the brick and mortar. In estimating the reproductive cost then, why should this portion of the property be omitted? The true reproductive cost should include the carrying charges and direct costs involved in acquiring the tenantage, which might readily amount to $10,000.00, thus obtaining the same figure as in the income capitalization

method. But whatever the cost, it would form the upward limit of value.

This reasoning appears to be supported, if we will consider any new building project. The actual costs obviously include the carrying charges during construction, the costs of financing, and other indirect expense. Any owner knows that further expense is incurred during the period required to obtain his tenants. Of course, the longer it requires to reach a profitable basis, the higher the cost; and, conversely, the less the value, but that's another story.

During periods of depression we are inclined to eliminate these indirect expenses in estimating reproductive costs—and rightly so. Again I submit, however, that it should not change a principle that is most significant in the appraisal process; viz., that the upward limit of value may be established by the results obtained by any one of the three approaches.

Now these three basic approaches do not in any sense take on the character of mathematical formulas. Nor are the elements embraced in each wholly independent from the other—quite the reverse. The analogy might best be found in chemistry where the same basic elements, combined in different ways and in varying amounts, may produce differing results. They are in the nature of tests and the final conclusion is based upon the several reactions to these tests.

PRELIMINARY SURVEY

Nothing very complex so far, is there? Let's see if we can now sum up the initial steps in the appraisal process.

I. The Problem: This involves the answers to questions:
   1—Is the property a residence, an apartment house, a farm, or a manufacturing plant?
   2—Is the appraisal required for purchase and sale, taxation, financing, or insurance?

II. Preliminary Survey and Inspection: This cursory investigation should be made in the interests of time and expense for the purpose of judging in advance:
   1—The character and use of the property and the use or uses to which it may be put or most readily adapted—this with regard to both the neighborhood influences and the property itself.
   2—The relative importance that each of the three *approaches* appears to have in undertaking the *value estimate*.

Up to this point the appraisal process has required little more than the one ingredient of common sense. From now on comes the hard work. We have to "dig up" the information. But this need no longer be a "hit and miss" affair—we have a rather comprehensive idea of what is required. In order that there be no oversight we outline it in advance, just as a housewife makes a list before she goes to market. For convenience we call this outline the "Data Program." Also, knowing now that we are attacking the problem on three fronts—the three approaches—we set up an outline under each approach. In so doing we have already decided which one is the most important—and expand or limit each outline accordingly.

THE DATA PROGRAM—SINGLE FAMILY RESIDENCE

Let me illustrate this. Suppose the problem requires the appraisal of a single family residence for the purpose of a loan to be secured by a first mortgage. Our preliminary survey shows that the property is located in a typical middle class residential area with a duplex or small apartment scattered here and there. Most of the houses seem to be occupied,—only a few showing "for rent" or "for sale" signs. A quick inspection of the house leads us to believe that it is quite typical of the neighborhood, in fairly good condition, and probably a reasonable improvement for the lot.

We conclude that the best use of the property is for a continuance as a single family home. The fact that there are evi-

dences of good occupancy, stability, and perhaps some activity, leads to the further conclusion that the Comparative Approach is going to be the most important and informative. The Reproductive Cost Approach may have some special significance, since the property appears to be balanced; however, the house is some years old—so we decide that this approach will be informative but not controlling. The rental that might be obtained would perhaps be of interest in checking our conclusion, so we look into the Income-Capitalization Approach, but decide that this approach is important principally as a factor of safety to report to the lender who would consider the possibilities under default of the borrower.

The Data Program might be set down in skeleton form somewhat as follows:

COMPARATIVE:

I. The Neighborhood
   1. Prepare list of all transactions (sales) of adjoining or neighboring improved properties of similar type, obtaining:
      A. Date of sale
      B. Location of property
      C. Description of land and improvements
      D. Conditions influencing sale
   2. Obtain or prepare a map of the district showing the general character of improvements by blocks; zoning restrictions, if any; location of stores, schools and transportation; physical features, etc.
   3. "Spot" on this map the property being appraised and all sales found "keyed" to the sales data.
   4. Interview local sources, Realtors, or individuals to obtain "holding" prices of improved properties of similar type; also of vacant lots which might be similarly improved. "Spot" these on the map.

II. The Property
   1. Obtain legal description and inspect the land, including,
      A. Size and shape
      B. Soil and topography
      C. Restrictions
   2. Inspect the building improvements with care sufficient to obtain sound knowledge of
      A. The character of design and general appearance.
      B. Character and quality of conconstruction.
      C. Size, layout, and room balance and arrangement.
      D. Interior finish and special features.
      E. Kinds and type of special equipment.
      F. Physical condition and requirements for maintenance and rehabilitation.
   3. Tabulate other advantages and disadvantages, including,
      A. Trees and landscaping
      B. Location of improvement on lot, view, air and light, etc.
      C. Character and relative type balance with properties next door, across the street, and in the block.
      D. Better or poorer side of street and position in block.

REPRODUCTIVE COST:

I. Estimate the cost of replacement of the land by comparison with sales of vacant lots and current holding prices developed under the "Comparative" data assembly.

II. Estimate the approximate cost of reproduction of the improvements and equipment. (In this assumed problem this may be by comparison with other new construction, by the knowledge of the appraiser where qualified on such work, or obtained as an opinion from someone who is.)

III. Estimate the amount of decreased desirability in the existing structure as compared with a new one, that is, the "accrued depreciation." (This would be based on the assumption that the building was of proper size and character. It would recognize deterioration and functional factors causing depreciation—but not economic factors.)

INCOME-CAPITALIZATION:

I. Obtain schedule of rentals being paid and being asked for properties of similar type in the neighborhood, as well as those which have prevailed in the past.

II. Interview local sources to determine the trends of house vacancies, demands, and rental rates.

III. Obtain local tax rates and policies of assessment changes and future outlook.

IV. Obtain information on taxes, insurance, assessments, and other expense being paid

or which must be provided, upon property under appraisal.

In spite of the simplicity of the problem, the Data Program presents a rather formidable appearance. And yet it might be materially expanded. Nothing is included as to the general statistics covering the city, nor as to the economic factors that have an important bearing upon value. As previously suggested, these factors are necessarily discounted to a substantial degree in the very data which we are assembling on comparative sales and rentals. In the majority of cases the practical appraiser will already be familiar with these broad influencing conditions—and, whether he lists them or not, will take them into consideration.

The fact is, of course, that the application of the Comparative Approach tends to introduce great detail. There are a vast number of things to be compared. What another property sold for in 1931 might be a far cry from the price it would bring today. Even if the sale had just been made it might involve special conditions that had no bearing upon the value of the property itself. Carried to a high degree of refinement, the Comparative Approach would never be completed. The properties in every sale would have to be subjected to the same analysis as that under appraisal. There would be the comparison of locations, sites, environments, and a maze of structural items, as well as comparisons of conditions prevailing at the date of sale with those current.

In the example taken, the Reproductive Cost and the Income-Capitalization Approaches are simplified, not so much as to the outline, but rather as to the extent and accuracy of the data required.

THE DATA PROGRAM—INCOME PROPERTY

How would this outline change if the property, let us say, were an apartment house or a business property? To begin with, our preliminary survey would be less likely to indicate much help from the direct Comparative Approach. Such actual sales of apartment house properties as might be available would probably be analyzed to develop ratios rather than direct comparisons, that is, the ratio that the sale price bore to gross income, net income, or costs. In this sense the data would be more appropriately placed under the Income-Capitalization Approach. Comparisons would still be in order, of course. The principles would not be changed. The neighborhood survey that might be sufficient for the study of the single family house, however, might be spread out to a district or several districts in listing our data for comparison. Again, different types or data would increase or decrease in relative significance.

Under the Reproductive Cost Approach the outline would not be changed, but it takes on more significance. This, in turn, calls for more detail and the need for greater accuracy in inventory and cost estimates. If our preliminary survey indicates a reasonably balanced property, the reproductive cost less depreciation will be the base or starting point for the value estimate, making such adjustments thereto as may be necessitated from our studies under the Income-Capitalization Approach. If it appears to be an unbalanced property, that is, if the building is evidently of such character or size as to reflect an under, over, or misplaced improvement, then the reproductive cost approach is still of real importance, but in a somewhat restricted manner.

Under such conditions we are little concerned with the total reproductive cost of the property. What we do want to develop with accuracy, however, is the estimate of property expense that may in turn

be considered when estimating the income potentialities.

This property expense may be considered in three classes:

Fixed Expense—such as taxes and insurance, regularly incurred.
Maintenance—irregularly incurred but continuous in character.
Replacements—periodically required, but subject to regular budgeted provisions.

Consider these for a moment. Taxes are not under direct control, but may be adjusted through the very appraisal we are making. Insurance is definitely subject to adjustment upon the basis of normal reproduction costs. Maintenance is largely a matter of experience on any one building, depending partly upon the character of construction and equipment, and partly upon the plan of operation, and the character of service and appointments offered. To some extent, however, it may be checked against reproduction costs. Replacements are strictly related to physical property and reproduction costs. A proper reserve for periodic replacements is just as much an item of operating expense as is the janitor's supplies or the coal bill. A reserve for replacements is in no sense to be confused with a reserve for depreciation or amortization. It is simply a provision for putting in a new boiler or pump once in a while, replacing the roof, or rehabilitating the elevators. It is not in any sense a return on capital, but a guarantee that the building will continue to serve during its remaining economic life.

These replacements constitute real physical items, not just investment. They must be made with similar items and purchased at the prices of such items new at the date of replacement. The reserve, therefore, must be estimated on today's dollars and, hence, upon the reproductive costs of the items. It is obvious that the reproductive costs are of even greater significance in the case of an over- or under-improvement than in a balanced-improvement where a proper blanket depreciation rate might be all inclusive. With this important distinction, however, we are concerned more with the detail costs and their accuracy on the replaceable items than with the structure as a whole.

The *Data Program* under the Reproductive Cost Approach would then read about as follows:

REPRODUCTIVE COST:

1. Estimate the cost of replacement of the land by comparison with sales of vacant land and current holding prices, developed under "Comparative Data Assembly"—the same as before.
2. Estimate the cost of reproduction of the improvements and equipment:
   A. With reasonable accuracy but in condensed form for the structure and equipment as a whole.
   B. In detail, with accurate prices and quotations for the items subject to periodic replacement.
3. Estimate the "accrued depreciation" with respect to:
   A. Decreased desirability as compared to a new structure, recognizing physical deterioration and functional elements—with particular respect to those which would tend to influence the rental base and its probable continuity.
   B. Present condition and life limitations of items subject to periodic replacement.

Going on with our apartment house example, let's consider the Income-Capitalization Approach. The outline of this phase of our Data Program takes on great importance in view of our preliminary survey. It might be set up about as follows:

INCOME-CAPITALIZATION:

1. Obtain statements of operation for a suitable period of years.
2. Consider carefully the source of these statements and their probable reliability—whether by independent audit or corporate organization.
3. With the statements as a guide, study the actual current status of operation and the probable future conditions to obtain data from which to set up a true itemization of

costs with reasonable estimates, covering:
   A. Adjustments for changes in character of service.
   B. Adjustments for expense of labor and supplies.
   C. Elimination of non-recurring items.
   D. Injection of expense—forecast but not previously incurred.
   E. Adjustment of property expense—taxes, insurance, and maintenance to future average normal.
   F. Elimination of depreciation provisions and substitution of reserve for periodic replacements.
4. With the statements as a guide, study the trend of occupancy and rental rates, and revenue; also current status and future outlook—this with reference to:
   A. The history and experience of the property.
   B. The general conditions and local competitive situation influencing apartment house operation.
5. Obtain information upon investment conditions and rates of return that have—
   A. Attracted capital to apartment house construction in the past, and—
   B. Might satisfy it at the present time.

The Data Program. There it is—not exactly in a nutshell, and not in full detail to serve all purposes. And as I said before, for every type of property and for differing appraisal purposes the Data Program might be expanded or contracted in its various parts, just as is an accordion in the hands of its operator. To get music (if you can get any music out of an accordion) the man who plays it must have the ability. The program is simple enough—but it takes an appraiser to make it work.

CORRELATION OF DATA

What is the next step? The correlation of the data—its interpretation. This phase is not susceptible to outline. We simply classify all of the data assembled, develop the several conclusions that may result under the three approaches, and on the strength of these conclusions we coordinate them—relate them, if you wish, to the property being appraised. With all of these steps completed we make our value estimate,—the final phase of the appraisal process.

The interpretation of the data under the Comparative Approach consists of the weighing of relationships, the step-by-step development of the degree of conformity of the property appraised with the information obtained on other properties. The conclusion under this approach represents, in principle, the demonstrated opinion of the public as to value. Perhaps it might more properly be called the *price the public has been willing to pay* for acquisition.

The conclusion under the *Reproductive Cost Approach* represents the price that this same *public would have to pay* for duplication in the event that no better opportunity were available.

The conclusion under the Income-Capitalization Approach represents the estimated today's worth of the estimated future returns from operation—the price which the *public should be willing to pay* in comparison with other forms of investment.

No one of these conclusions is necessarily final in the value estimate. They are simply in the nature of computations. They assist in narrowing the zone of error that exists to a more or less degree in every appraisal.

THE VALUE ESTIMATE

I have previously stressed the fact that appraising is not an exact science—it is not a matter of formula. Value is not being established—it cannot be actually determined. The most we can hope for is to make a reasonable estimate. The experienced appraiser, however, can determine what factors must be considered in making a proper estimate and, to some extent, the weight to be accorded to each of such factors. That is what makes him an appraiser.

The Appraisal Process must not be con-

fused with appraisal technique. The gathering of certain required data may be a matter requiring specialized skill and particular training. Some of these data may be very largely within the realm of the economist—some obtainable in one or more of the many branches of engineering—and a further source provided within the banking or other commercial fields. An appraiser occupies a distinct and unique professional status. He is governed by certain basic principles and follows standards of practice that, through experience, he has found to be desirable and efficient. His work is of a diagnostic nature on the one hand (through his interpretation of factual data), and of a *quasi-judicial* nature on the other hand (through the rendering of his value-estimate).

An appraisal of any complex property is not a one-man job. It requires an interpretation of the combined experiences of many. No one individual in a lifetime could acquire the knowledge and experience to appraise, without assistance, a large commercial hotel. If he were an experienced appraiser, however, he would apply the appraisal process with skill and judgment. He might personally be equipped to perform one or more of the technical phases of data assembly, and would certainly have attached to his organization (or know where to obtain) the expert assistance that he is going to need. Above all, he must be sure of his factual data and the men upon whom he is to rely for assistance. The most important single asset an appraiser can possess is the knowledge of his own limitations.

CONCLUSION

In conclusion, let us sum up very briefly the several steps in the appraisal process:

1. The problem itself as to:
   A. Type of property involved.
   B. Purpose of the appraisal.
2. Preliminary Survey to determine the scope of investigation required and the relative importance of the three basic approaches, namely:
   A. The Comparative Approach.
   B. The Reproductive Cost Approach.
   C. The Income-Capitalization Approach.
3. Preparing the Data Program upon the basis of such preliminary survey.
4. Assembling the data from the most authentic sources and in whatever detail is required.
5. Classifying and interpreting the data.
6. Making the value-estimate from the final consideration of the results under the three approaches.

The final step, of course, is the presentation of the estimate, that is, the appraisal report. Strictly speaking, perhaps, this is not a part of the process, but it is of great significance in any appraisal undertaking. No matter how sound the value-estimate, no matter how thorough the investigation, the failure to tell the story in an orderly, logical, and convincing manner may well spell the difference between success and failure. The appraiser must not only assure himself, he must also satisfy his client and others to whom the results may be referred. His report must be understandable to the lay mind, and at the same time convincing to the experts who may review it.

In principle, there is little difference in any profession. It has been said that an engineer is a man who can do for $1.00 what any fool can do for $2.00. A great surgeon is not great because he has cool nerves and a knowledge of human anatomy. Any interne may possess them both. No. He is great and successful because of his repeatedly demonstrated ability to apply his manual skill in an emergency, to select the proper instruments, to use them fearlessly in just the right manner and degree. Each operation presents a different problem, may require a varying technique, but the fundamentals do not change.

So with the appraiser. Nothing mysterious—nothing cabalistic. Assuming the un-

derlying ability and experience, making an appraisal is just a matter of common sense and hard work. That, as I see it, is the appraisal process.

♣ ♣ ♣

I

"The type of property and the purpose of the appraisal are foundational to the application of the appraisal process."

II

"The use of a property or the use to which it may be put or readily adapted is foundational to the application of the appraisal process."

III

"Capital tends to seek a proper level of return in accordance with the risks involved in its investment."

IV

"A property cannot have a value in excess of its cost of reproduction new, the price at which an equivalent and equally desirable holding can be acquired, nor in excess of the amount upon which it is capable of producing a return consistent with that expected from investments at similar risk."

♣ ♣ ♣

Operating Statements in Valuation—I

This is the first of two articles on the analysis and reconstruction of operating statements adapted from the text material developed for the Institute's Case-Study Courses in Real Estate Appraising at the University of Chicago in August, 1935.—ED.

THE capitalization process is commonly considered as one of the most important approaches in appraising investment properties. This process contemplates capitalizing the net income imputable to the property at a rate commensurate with the risk involved. It is considered in every form of investment, either consciously or otherwise. The difference between government bonds yielding 3% and first mortgages earning 5% is due to a difference in the risk environing the use to which such funds are put.

Although government bonds are secured by the wealth of the entire nation, and first mortgage notes are secured by only one specific property in the nation, the fact remains that there is a rental paid for the use of the money. As regards government bonds, it is a definite annual amount; as regards income producing real estate, it is not. From year to year the net income from an investment property changes and is subject to many different influences.

A conclusion can be no better than the premises upon which it is erected. An erroneous estimate of net income, or its time distribution, or the rate at which it should be capitalized will surely lead to an erroneous capitalized value-estimate. It therefore appears particularly important to discuss those matters which may assist in arriving at a reasonable first premise—that of the reasonable operating expense.

The sources of information are numerous and vary in the degree of reasonableness possessed. Either orally or in writing, the owner may give the appraiser a set of figures which purport to be a statement of operating expenses. These figures may have been taken from the books of the owner or operator, or from a certified audit of the books.

However, experience leads to the conclusion that, while the statement may be true and correct, in so far as the expenses are concerned, they may not be, and generally are not, correct from the standpoint of the appraiser who is estimating the value of the property as a whole rather than the value of the equity. Thus the question is not so much one of amount, but rather a question of terminology, in the first instance. As the inquiry develops, the matter of amount also becomes important.

For the purpose of illustrating this thought, a statement of actual income and expenses on the Blank Apartments is shown on page 27. These figures were taken from the books of the owner, by the owner, and furnished to the appraiser. For numerous reasons, the net income shown is not indicative of the actual net income to the property. Therefore, the appraiser must reconstruct this operating statement before proceeding with the appraisal[1].

The first feature in this statement to command our attention is the annual rent roll, and the varying amounts of loss through vacancy. The vacancy loss of nearly 25% in 1933 should indicate some-

[1]See the April, 1936, issue of this Journal for a reconstruction of the operating statement mentioned here.—ED.

BLANK APARTMENTS

An Unfurnished "Walk-Up"—38 Apartment Bldg.

Statement[2] of

CASH RECEIPTS AND DISBURSEMENTS

Furnished by the Owner

		Year 1932	1933	1934
Number of Rooms	171			
Number of Square Feet	39,030			
No. of Rms. per Apt.—Average	4.5			
Refrigeration not free.				
Age of Building—Years		7	8	9
GROSS INCOME				
Rental Value—100% occupied		$26,575.60	$24,295.00	$21,621.00
Vacancy Loss		3,675.00	6,050.64	2,262.00
Bad Account Loss		430.00	625.00	210.00
Effective Gross Income		$22,470.00	$17,619.36	$19,149.00
OPERATING EXPENSES				
Fuel		$ 2,565.40	$ 2,387.30	$ 2,491.00
Ash Removal		228.00	188.00	218.00
Water		360.70	315.60	342.00
Electricity		216.40	761.41	310.00
Shades and Decorating		1,620.30	2,330.11	1,326.00
Janitor Salary		1,665.00	1,800.00	1,610.00
Janitor Supplies and Miscellaneous		182.00	802.46	210.00
Repairs and Replacements		342.00	1,348.58	261.00
Exterminating		26.60	35.50	42.60
Advertising		192.60	252.51	98.00
Total Operating Expenses		$ 7,399.00	$10,221.47	$ 6,908.60
Net Income after Operating Expenses		$15.071.00	$ 7,397.89	$12,240.40
CAPITAL OR NON-RECURRING EXPENSES				
Refrigeration Contracts		$ 962.21	$ 739.32	.....
Decorating and Replacements		221.62	718.42	165.00
Repairs		325.00	.....	425.00
Miscellaneous		36.60	.....	81.10
Total Capital or Non-Recurring		$ 1,545.43	$ 1,457.74	$ 671.10
Net Before Other Expenditures		$13,525.57	$ 5,940.15	$11,569.30
OTHER EXPENDITURES				
Interest on Bonds		$ 3,000.00	.....	.....
Special Assessments		261.21	$ 252.12	.....
General Taxes		2,500.00	3,707.76	$ 2,176.66
Insurance		.....	503.99	.....
Management		1,123.50	1,290.00	957.45
Total Other Expenses		$ 6,884.71	$ 5,753.87	$ 3,134.11
NET INCOME		$ 6,640.86	$ 186.28	$ 8,435.19

[2]See next issue for reconstruction of this statement.—ED.

thing to the appraiser. The fact that the total annual rental declined for three successive years should warn the appraiser to ascertain why. The matters of rentals, vacancy, and bad accounts, particularly when compared with other years, should be disturbing to the appraiser who should look well into the matter of management for the purpose of better enabling himself to make reasonable estimates for the future.

The fuel, ash removal, and water accounts seem to be in line with other properties similar to this. The electricity account for 1933 is very much higher than for the other two years. This should arouse the curiosity of the appraiser because that much variation must mean that something unusual happened, or that a portion of the former year's bill was paid during 1933.

The shades and decorating account for 1933 is also higher than for the years 1932 and 1934. This is particularly interesting because, in that year, the vacancy loss was 25%. If new shades were purchased for the entire property and charged to operating expense for the year 1933, it is probable that the appraiser will want to prorate a portion of this sum over the remaining life of the shades, for reasons which will be herein later discussed.

The janitor's salary for the year 1933 is an even amount. Perhaps this is a contract price above the union scale. However, the appraiser should give some thought to this figure inasmuch as there was a great deal of vacancy and, in most communities, a janitor does not receive as much compensation when there are a large number of vacancies in the building. In times when the operation shows very little net income, it seems appropriate to reduce the janitor's wages.

Janitor's supplies and miscellaneous was $802.46 during the year 1933. This is entirely out of line and should be scrutinized by the appraiser. The appraiser should also have some doubt in his mind as to whether the supplies and miscellaneous account is a proper one. At any rate, that part of the account that is "miscellaneous" should be broken down in order to determine just what it includes, so as to be able to classify it properly.

The repairs and replacement account appears particularly out of line in the year 1933. The same account during 1932 and 1934 is much smaller, and more in keeping with the normal cost of operation of this type of building. Again, as in the previous account, the item of replacement should be analyzed to determine whether any part of it is a capital expense, or a non-recurring expense.

The items of exterminating and advertising do not necessarily call for any comment. In some communities, it is customary to have the advertising done and paid for by the management concern but, in this particular case, advertising may have been paid for by the owner, by special agreement.

In connection with capital and non-recurring expenses, it is interesting to note what portion of the refrigeration contract was paid for 1932 and 1933, and that no money was paid for this account in 1934.

Decorating and replacements is a peculiar account. No doubt the high figure of 1933 refers to some extraordinary decorating which will not soon occur again. The replacements too are non-recurring. The appraiser should inquire as to just what they were.

In connection with repairs and miscellaneous items in the "capital and non-recurring" account, nothing was expended on these accounts in 1933, whereas definite amounts are set up for 1932 and 1934. This may indicate that the large amount

of operating expenses in 1933 may include some of these items. In considering the accounts in the capital or non-recurring expenses, like all other accounts, the appraiser should give a great deal of thought to the matter of whether they are correctly located in the statement, or whether they are actually operating expenses, or something else.

In connection with other expenditures, we find an interesting item in interest on bonds. This appears frequently on operating statements, and many times properly so. If it is the equity that is the subject of evaluation, then this item is properly shown. However, if the property as a whole is the matter of evaluation, then interest on bonds is a proper deduction.

The next item is special assessments. Here again the appraiser must decide whether or not this should be included as a deductible expense. In such cases, the matter of the future will usually control. If such expense will annually recur for a number of years, it may be shown as a proper deduction.

General taxes were very much higher in the year 1933 than they were in 1932 or 1934. The appraiser should attempt to learn the reason for this. Possibly he will find that all taxes were not paid in some previous year, or that personal property or other taxes are included. At any rate, this great difference should become a subject of inquiry.

It will be noted that the insurance item is missing in 1932 and 1934, and is conspicuous by its presence in 1933. Irrespective of whether the amount is correct or not, it indicates that the premium for several years was paid in one year. Insurance premiums should be brought into line on a single year basis if an informative statement is to be developed.

Analysis of Items

In view of the differences shown in the amounts actually expended for certain items, the appraiser should proceed upon the assumption that every item is subject to inquiry. How this can be done will be explained later. By comparing these items with those obtaining in comparable properties, a normal tendency will be discovered. Then, too, statements concerning the property in question for a number of years also may prove of great assistance in estimating future expenses.

However, the appraiser must keep in mind the fact that conditions are constantly changing, and for this reason old records may be misleading. For instance, in 1929 a certain organization worked out operating ratios for fifty-five comparable buildings and concluded that the operating ratio for three-story walk-up apartments was approximately 50%, *i.e.*, the operating expense was 50% of the gross income. The deviation from the typical figure in the fifty-five properties was so small that this figure was accepted as a guide in the lending operations of this company. If, however, one accepts 50% as an operating ratio today in the same type of property, his conclusion will be grossly in error. The operating ratio will change with changes in the gross income.

Although the first step is the accumulation of data, yet this text contemplates a cursory examination of the data for the purpose of ascertaining what other data should be collected for comparison.

Sources of Data

The appraiser may secure data compiled by various organizations. For years the National Association of Building Owners and Managers has compiled unit expenses on a large number of office buildings in most major cities. Every year, it sends to

its members a questionnaire asking for information concerning rental income and detailed operating expenses. It has attempted to inform its members as to the method of keeping books and reporting accounts so that something comparable may be forthcoming.

This association compiles its figures on office buildings in terms of number of cents per square foot of rentable area. While this information has proved very helpful to many members of the Association, there is some question as to whether the appraiser may use the information without fear of making the wrong kind of interpretation. When data of this kind are collected on a national scale, a great many errors creep in because of conditions that are peculiar to different parts of the country. The Association recognizes this and tries to correct it by taking into consideration the mean temperature and other matters of variation.

The matter of unit costs, *e. g.*, cost per square foot of rentable area, will be influenced greatly by vacancy. If an office building is 50% occupied, the insurance and taxes may be the same, but the cleaning, heating, and elevator expense may be quite different. Furthermore, in spite of lengthy instructions as to how the account should be kept and what should be included in it, the fact remains that people do business differently in different parts of the country. This makes comparisons very difficult indeed.

In some buildings, for instance, the janitor may take care of some of the plumbing; in others, the janitor may do some of the window washing and minor painting and yet all of the expenses may be charged to the janitor's wages.

AVERAGES

Under certain conditions, arithmetical averages are very misleading. One may have figures ranging from 10 to 190 and have an "average" of 100, while the "typical" figure may be 60. Three-quarters of the items might fall around the 60 mark, with a few of them much lower, and a few much higher and still the arithmetical average may be 100.

For the year 1934, the National Association of Building Owners and Managers first attempted to gather experience on apartments. Previously, its efforts were in connection with office buildings only. The findings of this Association are helpful to us if for no other reason than that they are of value in standardizing accounts. The results are also helpful to owners of particular buildings, not only because they learn what others are doing, but have the benefit of their own efforts expended in preparing the questionnaire. Whether these efforts are helpful to the appraiser depends entirely upon whether the appraiser uses sound judgment in interpreting the facts. The gathering of these data is a step in the right direction and should be very beneficial. Nevertheless, the appraiser should have this information in his files.

DATA AND THE APPRAISER

As previously pointed out, these data are useless unless the appraiser knows how to use them. For the most part, data pertains to the past, whereas the appraiser is dealing with the future. Therefore, the appraiser becomes a student of every subject involved in the operation of a building. On the income side, he is a student of demand in relation to supply, as well as business conditions both local and national. On the expense side, he becomes a student of taxation and other items of cost. He should know the trend of general real estate taxes. He should know whether or not there is a tendency upward or downward, as far as real estate rentals

are concerned. He should know the cost of fuel and should have his data so compiled that when the cost of fuel changes, he may readily make corrections for the change.

It is in this connection that data figured on a dollar basis per room or apartment is inadequate. If fuel is figured on the quantity and quality consumed per room per year, the change in price may easily be reckoned with.

Similarly, the appraiser should be acquainted with insurance rates and the various types of insurance, and keep himself posted on building costs, and labor conditions. He should understand depreciation, and be in touch with the latest developments in building progress. All of this information kept current, in addition to sound judgment, should equip the appraiser to make good appraisals.

Proper Premises Necessary

The conclusion of value can be no better than the premises upon which the conclusion is based. It is therefore necessary for the appraiser to reconstruct both the income and the operating statements in order that the data be reasonable, and, it logically follows, in order that the value estimate be reasonable. Abnormal operating data must lead to an abnormal conclusion of value.

In addition, we have tried to point out several sources of information that may help the appraiser in his data program. And lastly, we have tried to point out that all this information available to the appraiser is in reference to the past. In as much as he is dealing with the future, he must be a student of all the subjects with which the operation of a building deals.

Building Maintenance

We are concerned here with a discussion of the normal building maintenance requirements of a structure, with particular reference to the differentiations between maintenance, on the one hand, and replacement on the other. This is a matter of great importance in all cases where appreciable amounts are shown in the statement for maintenance and replacement. This is so because a deduction from the net income for excessive replacement provisions unduly penalizes the income account, with a consequent unjustified lessening in the value estimate of the property.

But before beginning this discussion, it is important that we first define our terms, for such a discussion requires an understanding of certain terms used. For illustration, in the Receipt and Disbursement Statement of the Blank Apartments included on page 27 decorations and replacements are shown as one item. The very natures of these two items disclose them to be so dissimilar that they cannot be combined in any statement prepared to assist in the evaluation of the property. Let us see why this is so.

Keeping in mind the fact that our inquiry is directed toward the appraisal of the property, rather than the equity, such items must be broken down into three divisions, (1) pure maintenance; (2) replacements; and (3) capital additions.

It is sometimes difficult to draw a line dividing that which might be termed maintenance and that which is not. However, such divisions must be reasonably made. The dividing line is usually drawn, either by the "character" or the "amount" of the item. In ordinary investment properties of moderate size, it might be practical to say that any expenditure of $100.00 or less may be called "maintenance," and any amount above this figure will be called either "replacement" or "capital addition," depending upon the

purpose for which the money was expended.

Thus the line, expressed in terms of dollars, which will form the boundary of maintenance expenses, in a measure, will depend upon the size of the property in question. It might also be based upon the extent of useful service expected, *e. g.*, a short-lived item (say one year) may be called maintenance; a longer-lived item may be termed replacement or addition to capital.

Briefly, the term "maintenance" is herein used to denote those moneys expended in the preservation of the existing building, but not extending its useful life. In contradistinction thereto, the term "replacement" is used to denote those moneys which are expended in replacing items which do extend the useful life of the building.

Thus the controlling difference between maintenance, on the one hand, and replacement, on the other, is that of expected life in relation to the original life of the item. For illustration, the placing of a new roof upon a building is a matter of replacement rather than maintenance, for the reason that the expenditure will extend the useful life of the property.

The relationship between these three items — maintenance, replacement, and additions to capital, may be shown with regard to a chair in an apartment house. If a new seat is purchased for the chair, this item is called maintenance; if a new chair of the same kind is purchased, this is called replacement; but if a new chair of a more expensive make is purchased, then that portion of the cost of the new chair which is equal to the cost of the old chair may be termed replacement, while the excess is called an addition to capital.

In analyzing the operating statement of an investment property it is extremely important that these differentiations be made, and that the operating statement be reconstructed to so show them. If, for illustration, these three items of maintenance, replacement, and additions to capital, were to be considered as deductions from the gross income in arriving at the net income to the property, then these distinctions would not be made.

However, all are not proper deductions. Maintenance is the only one of the three that is a legitimate operating expense, from the appraiser's standpoint. Those items shown as replacement and additions to capital must be added back, or, stated differently,—they must not be deducted as operating expenses, for the reason that they would cause the net income to be less than it reasonably should be.

The amounts expended for replacements operate to offset continuing depreciation, and therefore a deduction from the income for replacements, and another deduction for depreciation would impose a double penalty upon the income from the property. Thus the money expended for replacements should be deducted from the charge for depreciation in order that the double penalty be not imposed.

Then, too, considering the matter of additions to capital, these items should be added back to the income rather than be deduced as an expense. To do otherwise, that is, to include capital expenditure as an item of expense, as shown on the operating expense statement, would be unfair to the property. This would be similar to a situation in which a sum of money was expended for the purpose of adding on to the size of the building, the cost of the addition being paid for out of the current year's income, and shown on the statement as an item of expense, which assuredly it is not.

If the addition to capital will increase the net income to the property, which it is presumed to do not only for one year but

during its useful life, then such an item is not an expense chargeable against the property for one year. It is analogous to the payment of a five-year fire insurance premium which should be pro-rated over the five-year term.

In the Blank Apartment statement mentioned, the following items are shown:

Under the heading of "reserve for periodic replacements," provision is made for the roof, refrigerators, gas stoves, boilers, mechanical equipment, etc.

It thus becomes apparent that in dealing with investment properties, the operating statement must be reconstructed so as to show correctly the net income imputable

Operating Expenses:	1932	1933	1934
Shades and decorating	$1,620.30	$2,330.11	$1,326.00
Repairs and replacements	342.00	1,348.58	261.00
Capital or Non-recurring Expenses:			
Decorating and replacements	221.62	718.42	165.00
Repairs	325.00	.....	425.00
Total	$2,508.92	$4,397.11	$2,177.00

Such a statement is almost meaningless. First, it is noticed that repairs are shown in two different places. So are the items of decoration and of replacements. It is quite probable that the item of shades is for new shades, *i. e.*, replacements. This is not an operating expense although a proper deduction if the amount is an annual recurring amount. Then, too, note the difference between the amounts shown for each of the three years.

A study of the other items is no more helpful than the first. The appraiser would have to have a detailed statement of each expenditure in order to know what it was for and what its proper allocation would be. However, a thorough analysis of the detailed vouchers may disclose, after reconstruction to conform to the normal expenditures, the following allocations of the above items:

Operating Expenses:		
Decorating and painting:		
Cleaning window shades	$2,378.00	
Actual repairs	250.00	$2,628.00
Other Expenses:		
Reserve for periodic replacements		$ 678.00
Total		$3,306.00

to the property. The failure to do so is bound to lead to an erroneous opinion of value for the reason that the data upon which the opinion was founded was incorrect.

The foregoing discussion contemplates an analysis of the maintenace costs for the purpose of eliminating therefrom those items which are not properly chargeable to maintenance. Therefore, the discussion to this point deals with the re-allocation of costs actually incurred during the current year. However, this study must proceed one step further. The appraiser is not only concerned with the amount of money actually expended for these various items during the year, as shown on the operating statement, but he is also interested in the reasonableness of these amounts.

Therefore, the next step in this study contemplates an analysis of the actual maintenance cost shown after reconstruction of the statement; and a further reconstruction must then be made. This last step involves a comparison between the maintenance costs actually incurred and those which are reasonable for the prop-

erty, usually expressed in percentages of the gross income, or in percentages of the physical cost of the building.

For illustration, in a hypothetical structure the operating statement furnished by the owner, which shows the sums of money actually expended, may show an item of $1,000.00 for maintenance. An analysis of the various items which go to make up this total of $1,000.00 may reveal that $300.00 are properly chargeable to replacements. Thus in our first reconstruction of the operating statement this $300.00 is deducted so that the maintenance expense is shown as $700.00 instead of $1,000.00.

Pursuing the next step, we may find that the normal amount of maintenance on such a structure, based upon normal requirements for similar properties, should be $900.00. Then, and in this event, the amount actually shown for maintenance in the second and final reconstruction of the operating statement would be the normal figure of $900.00, and requirements for replacements would be considered separately.

(Concluded in Next Issue)

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V

Thus the controlling difference between maintenance, on the one hand, and replacement, on the other, is that of expected life in relation to the original life of the item. For illustration, the placing of a new roof upon a building is a matter of replacement rather than maintenance, for the reason that the expenditure will extend the useful life of the property.

The relationship between these three items—maintenance, replacement, and additions to capital, may be shown with regard to a chair in an apartment house. If a new seat is purchased for the chair, this item is called maintenance; if a new chair of the same kind is purchased, this is called replacement; but if a new chair of a more expensive make is purchased, then that portion of the cost of the new chair which is equal to the cost of the old chair may be termed replacement, while the excess is called an addition to capital.

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Depreciation—Past and Anticipated

By AYERS J. DU BOIS, M.A.I.

THE appraiser's primary function is to make estimates in dollars of the fair worth of individual properties. The worth of any property is dependent upon two things: (1) the capacity of that property to serve the needs or desires of mankind, and (2) the extent to which mankind needs or desires to avail itself of that capacity. If the capacity for usefulness is and will continue to be great, and if the need or desire to utilize that capacity to the fullest extent exists and will continue to exist, then utility to the maximum degree possible will exist, and there will be a very close relationship between cost of reproduction and value as expressed in dollars. If the capacity is great but the need or desire to utilize it is small, value will be much less than cost; or if both are great at a certain time and either one or both become less with the passage of time, then value will become less. That is to say, depreciation in value and utility will occur.

Both capacity for usefulness and the need or desire to utilize capacity vary between different properties at one moment in time and as relating to the same property at different moments in time. Such variations account for variations in property values and for depreciation in value. Therefore, if the appraiser is to function intelligently, he must be able to discover and measure capacity for usefulness, and to identify and estimate the effects of forces which affect changes in the need or in the intensity of the desire to utilize this capacity. If he confuses *capacity* for utility with *utility* he is likely to mistake the former for the latter; then his value estimates will be grossly erroneous in many instances.

It is obvious that capacity for utility and actual utility are not necessarily the same. An apartment house may have a capacity to house a hundred families—that is indicative of its capacity for utility; but if there are not in existence where the building exists any families to occupy it, or any families who want to occupy it, then its utility may be zero or close to zero. If at one time a hundred families desire to and do occupy it but later on only fifty families exist who wish to live in it, or if later on in order to get a hundred families (or less) to live in it, rentals must be lowered, then in spite of its unchanged capacity to house a hundred families, its utility and value will have declined because of a lessened need or less intense desire to use its capacity for service. These declines in utility and value are designated "depreciation."

THE APPRAISER'S INTERPRETATION OF DEPRECIATION

It is important for appraisers to understand the nature of the forces which lessen the need or desire to utilize the capacity for usefulness possessed by individual properties, that is, to understand the causes of depreciation. Let it be clearly understood, however, that this is important not in order to estimate the extent to which value at the time of appraisal is less than at some other time, but in order to estimate how these forces will affect utility after the date as of which the value

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Whenever two or more appraisers get together, the conversation inevitably turns sooner or later to the subject of "Depreciation." The October Journal carried an extensive article treating of the fundamentals and the practical approach, as presented in the Appraisal Courses at the University of Chicago last summer. Mr. du Bois, however, has presented phases of the subject not covered in the October Journal article nor in any other article so far as we know. An address based on this paper was delivered before the American Institute of Real Estate Appraisers at the Convention in Atlantic City, New Jersey, on October 22, 1935.—ED.

estimate is to be made. The valuation problem cannot be solved in any case except by estimating the extent of utility at the time of appraisal (that is, the extent of the need or desire to utilize the then existing capacity for utility), and also estimating the extent and effect of probable future changes in that utility. If causes of such changes are understood, the prospects for and effects of their occurrence can be forecast.

So much attention has been given to the subject "depreciation" in appraisal discussions, and the word is so universally identified with past events, such as cost, physical deterioration, decay, age, that there is danger that in focusing attention on depreciation, the appraiser may be drawn aside from his primary purpose, namely, forecasting future events, or estimating the extent and duration of future benefits. Depreciation is of direct importance to the appraiser in those cases in which the reproduction cost approach is the only one that can be followed; but in other cases —cases in which utility in the future can be directly estimated by means of the "capitalization of net income" valuation approach—depreciation is of no direct importance. This is not to say, however, that an understanding of what causes it is of no importance.

Perhaps the danger mentioned would be lessened if depreciation were understood as being a lessening in the extent of the need or ability of mankind or in the intensity of the desire of mankind to utilize the capacity for utility originally or previously provided by a property. This definition directs attention to utility, differentiates between capacity (supply) and need or desire to utilize it (demand) and, thereby, between cost and value, and, by implication, suggests the need to deal with the future and changes it may bring.

Many books have been written on depreciation. It is probably correct to say that they are of importance and help to accountants rather than to appraisers. The problems and functions of the accountant are distinctly different from those of the appraiser, though they touch at certain points. The introduction of some of the devices and concepts of accountants into appraisal technique and discussions has caused much confusion of thought and tended to draw the appraiser into wrong paths.

This is true with regard to so-called depreciation methods. These methods are intended to provide bases for fixing policies that are concerned with and essential to the operation of business enterprises—policies, for example, with regard to payment of dividends to provide for the replacement of worn-out or obsolete mechanical equipment, computing net income for income tax purposes, determining a casualty insurance program, and so on. None of such matters concern the appraiser in valuation work; his functions direct his attention to the amounts and duration of future benefits which are likely to be derived from ownership of the property he must appraise. He is concerned with depreciation and methods of estimating the amount which has accrued, only indirectly —it is a by-product of his valuation process. He estimates value by forecasting future benefits and estimating their equivalent monetary worth, and he then can estimate the amount of depreciation simply by subtracting his value estimate as of the time of appraisal from a value estimate which applied at some prior time. The accountant must deal with the conservation of capital invested in an enterprise while the appraiser must estimate the value of probable future earnings.

CAUSES OF DEPRECIATION

It was stated above that depreciation is a lessening in the extent of the need of mankind or in the intensity of the desire

of mankind to utilize the capacity for utility provided by a property. It will be in order now to consider what would cause such a lessening.

The causes can be grouped under two heads; (1) deterioration, and (2) obsolescence. Deterioration is a change for the worse in physical condition. Obsolescence is a negative change in ability to arouse or sustain desire for ownership, or need for use due to causes other than deterioration. Deterioration lessens the capacity for utility by limiting physical life. Obsolescence lessens utility by lessening economic life without affecting potential physical life. Physical condition is affected by such things as wind, water, temperature, sunlight, use, and abuse. Desire for ownership and need for use are affected by such things as style, functional efficiency, design, governmental regulations, and economic conditions or relationships.

Thus, constant winds laden with moisture will destroy painted surfaces and hasten decay of building materials. Temperature changes will cause expansion and contraction and destroy or affect structural soundness. Abuse will rapidly wear out floor finishes and flooring. These physical changes are deterioration. Deterioration lessens physical life and also simultaneously lessens the intensity of desire to take advantage of the opportunity to utilize capacity for utility. Depreciation in value results in the end.

Changed economic relationships, such, for example, as those produced by a loss of population in a community, may terminate the need for use of certain properties. Governmental edicts may terminate the right to use others. Improved design or newly devised mechanical equipment which results in greater functional efficiency, may cause a weakening of desire for ownership of still other properties. These changes in intensity of desire, extent of need, or legal right to use are obsolescence. Obsolescence lessens economic (i.e. useful) life without affecting possible physical life. Depreciation in value results in the end.

Let it be clearly seen then that certain causes produce effects known as deterioration and obsolescence and that these effects, in turn, become causative and produce depreciation. Strictly speaking, depreciation is always an economic effect or phenomenon—never a physical one. It is the result of forces which *directly* change human viewpoints with regard to properties or which *indirectly* change them by producing undesirable physical changes in the properties themselves. It is common, however, to hear appraisers talk about "physical" depreciation, and "functional" depreciation. These terms are meritorious in so far as they tend to suggest the nature of certain causes of depreciation; but they are misleading in so far as they tend to confuse the causes with the effect, and divert attention from the fundamental fact that all depreciation or value declines arise from economic causes. The appraisal problem ordinarily is not one of rating physical condition or functional efficiency and trying then to translate the rating into a dollar amount to be deducted from cost of reproduction in order to estimate value; rather the problem is one of making estimates with regard to future benefits and computing value on the basis of these estimates.

Depreciation has occurred in the past and it will continue to occur in the future. Therefore, when the appraiser makes his estimate of the current rate at which net benefits (i.e., net income) are being produced by the property appraised, he must next estimate how this rate will depreciate in the future and when it will have de-

clined to the point where the improvements on the site will cease to be valuable.

METHODS OF COMPUTATION

The procedure followed in taking this step varies widely and involves numerous conflicting viewpoints and principles. One group of appraisers advocates use of a deduction based on the so-called straight-line method of recovering value represented by a wasting asset. Another group says a sinking fund device should be used. A third group favors an annuity device based on Hoskold's premise. A fourth group prefers the annuity device which is the basis of Inwood's compound discount annuity factors. Let us examine these several devices.

Assume that an appraiser has estimated certain items as follows:

1. Reproduction cost of property in new condition, excluding land	$60,000
2. Remaining economic life of building 30 years. (Building is new).	
3. Gross rental value of property for ensuing 12 months, 100% occupied	12,000
4. Allowance for vacancy and rent losses, 10%	1,200
5. Gross effective income, ensuing 12 months	$10,800
6. Deductions for all deductible items of cost, yearly during remaining economic life	5,800
7. Net income of property, ensuing 12 months	$ 5,000

Item six above includes only items which will represent actual outlay of money in the future. Thus it includes taxes, insurance, operating costs, sufficient amounts to accumulate enough money to make repairs and replacements as these became necessary, and management costs.

The item commonly called "depreciation" is not included. When such an item is included, it is intended to be an amount sufficient to offset depreciation (that is, loss of value) which is expected to occur in the future. Loss of value is not an expense, however, and therefore does not properly come under a heading dealing with costs.

Item seven, that is, the net income, is determined then without making any deduction intended as an offset against depreciation which may occur in the future. This is in accord with the definition of "net earnings" and "net income" in the booklet entitled "Appraisal Terminology" recently distributed by the Institute to its members.

THE "STRAIGHT-LINE" METHOD

First let us suppose the appraiser is of the group which advocates use of the "straight-line" device. He proceeds as follows:

ILLUSTRATION NO 1, "STRAIGHT-LINE" DEVICE

Net income of property ensuing 12 mos.	$ 5,000
Deduction to offset future depreciation (1/30x$60,000) (Recovery of capital)	2,000
Remainder (interest on value of the investment)	$ 3,000
Capitalized value of $3,000 per yr. @ 7.5%.	40,000

The resultant capitalized value of land and buildings is less than the cost of reproduction of the buildings alone, a fact which immediately indicates that the deduction of $2,000 is incorrect. Use of this figure of $2,000 is based on the erroneous assumption that the cost of reproduction of the building is the same as its value and must be recovered out of net income. However, the value of the improvements is much less than their cost, not because of deterioration but because of lack of need to utilize their capacity for utility, or lack of desire to do so. This illustrates one of the pit-falls of this method when it makes reproduction cost in new condition its starting point and assumes this cost to be equivalent to value in new condition. It is obvious, from the illustration, that the method cannot be applied as shown in any case where over-improvement exists.

This appraiser might, after making the

calculation shown in Illustration No. 1, proceed as follows:

ILLUSTRATION No. 2, "STRAIGHT-LINE" DEVICE

1. Reproduction cost, buildings new	$60,000
2. Penalty account of over-improvement, of poor design, or misplacement, etc., (accrued depreciation) 30%	18,000
3. Present value of improvements	$42,000
4. Net income of property, ensuing 12 mos., (as before)	$ 5,000
5. Deduction to offset future depreciation (1/30th of $42,000)	1,400
6. Remainder (interest on value of property)	$ 3,600
7. Capitalized value @ 7.5% ($3,600 ÷ 7.5%) =	$48,000
8. Distribution of value:	
Land	$ 6,000
Building	42,000

However, the appraiser has discovered evidence which leads him to conclude that the land fairly is worth $20,000, and if the buildings are worth $42,000, as his direct estimate on a cost-less-depreciation basis indicates, then the entire property would be worth $62,000. But the earnings estimate will not support such a value estimate. Therefore, the appraiser is forced to conclude that his estimate of accrued depreciation was erroneous and the $1,400 deduction was also erroneous. This illustrates the shortcomings of direct estimates of accrued depreciation. Frequently an appraisal report is found to contain an estimate of so-called "depreciated reproduction cost" of the property involved, but this estimate is found to be very much higher than an estimate of the capitalized value of probable future net income recorded elsewhere in the report. For example, an estimate may appear as follows:

Reproduction cost, buildings new	$60,000
Accrued depreciation, 30%	18,000
Depreciated reproduction cost	$42,000
Land Value	20,000
Depreciated Reproduction cost of property	$62,000

On another page in the report the appraiser shows an estimated capitalized value and final value estimate of $52,000 distributed $20,000 to land, and $32,000 to buildings. The only intelligent conclusion to be drawn is that the appraiser has discredited his own direct estimate of accrued depreciation, for, in effect, he says in his report: "I estimated the accrued depreciation to amount to $18,000 in one place in my report but this was an error for the right amount is $28,000 since the buildings are only worth $32,000 instead of $42,000." This illustrates the folly of making direct estimates of accrued depreciation and then rejecting them as the basis for final conclusions.

This much can be said for so-called "depreciated reproduction cost" estimates with regard to buildings. If a 100% depreciation in value occurs through a fifty year period, the average annual rate is 2%. The first ten years of life might be accompanied by accrued depreciation to the extent of 20% or much more or less: obviously the error in a direct estimate at this point in the life of the building may be very great because the maximum value may be very great or very small. However, after thirty-five years or more of life have elapsed, the amount of accrued depreciation will not, in all probability, be much more or less than 70%. The range of possible value has been narrowed by this time. Hence the possible error in a direct estimate of accrued depreciation is likewise confined within a relatively small range.

Having made the calculations shown in Illustrations No. 1 and No. 2, the appraiser may then proceed along the lines shown below:

ILLUSTRATION No. 3, "STRAIGHT-LINE" DEVICE

1. Net income of property ensuing 12 mos.	$ 5,000
2. Land value, by analysis $20,000.	
3. Return on land value, over-all rate	

7.5% (20,000×7.5%)	1,500
4. Building earnings, ensuing 12 mos.	$ 3,500
5. Capitalized value of building earnings, 7.5% return plus 3.33% (1/30th per year) "depreciation" per year ($3,500 ÷ 10.83%)	$32,300
6. Land value	20,000
7. Property value	$52,300

CRITICISM OF THE "STRAIGHT-LINE" METHOD

The main criticism to be leveled against this procedure is that buildings do not experience loss of value in the manner indicated in the method, that is, in equal yearly amounts or after the manner of declining straight lines. Undoubtedly, for a time after completion, their net incomes are likely to be level (provided conditions of stability prevail generally), and then to decline gradually but at a slowly accelerating rate. Such an experience would appear as a curved line if represented graphically.

It is not generally realized that the use of a deduction for anticipated future depreciation made on a straight-line basis assumes a straight-line decline in building earnings. That such an assumption is hidden in the method is demonstrated as follows, using the figures of Illustration No. 3.

ILLUSTRATION NO. 4

STRAIGHT LINE DECLINE IN NET INCOME

1. Net income of property, ensuing 12 mos.	$5,000
2. Land earnings, 7.5% on $20,000	1,500
3. Building earnings, ensuing 12 mos.	$3,500
4. The building will become less valuable year after year as its remaining economic life becomes shorter and shorter.	

It is assumed that the value decline will be 1/30 or 3.33% of $32,300, or $1,077, per year. This amount must be recovered yearly from the building's earnings. $3,500 less $1,077 leaves $2,423, which, then, is the interest return on the value of the building, that is, 7.5% on $32,300. Since the building value is assumed to decline $1,077 per year, then the interest return on remaining value will decline each year by an amount equal to 7.5% of $1,077, or about $81. This will continue for thirty years, after which no net income attributable to the building will remain. If this is true, then the present worth of the series of incomes mentioned will equal $32,300, the present value of the building. The proof follows:

a. Present worth of $1,077 per year, for thirty years, 7.5% rate, Compound Discount (Inwood) factor 11.81	$12,719
b. Present worth of a series of annuities (yearly incomes) lasting thirty years, beginning with $2,423 the first year and declining in a straight line about $81 each year (factor 8.084—See Babcock's "Valuation of Real Estate," Table II, Premise 4)	19,587
c. Present value of building earnings	$32,306

Or the same result may be deduced as follows by use of a so-called "annuity" method:

ILLUSTRATION NO. 5

"ANNUITY" DEVICE, STRAIGHT-LINE DECLINE IN NET INCOME

Assumptions: 1. Building value will decline during the remaining economic life of n years in the manner indicated by the value curve of a series of yearly net building earnings which decline in the manner of a straight line to $1/nth$ of present building value in $(1+n)$ years, but will terminate in n years.

Formula: $V = (E_b - \frac{V}{n} \times \text{declining } a_n + \frac{\text{level } a_n \times V}{n}$

V = Present building value—unknown.

E_b = Net building earnings ensuing 12 mos. — $3,500.

n = Remaining economic life of building in years,—30 yrs.

Declining a_n = Present worth at chosen discount rate of a declining annuity of the type de-

scribed above for a period of n years — 8.084, 7.5% rate.

Level a_n = Present worth at chosen rate of a level annuity for a period of n years — 11.81, 7.5% rate.

Applying this equation above, we have:

$$V = (\$3{,}500 - \frac{V}{30}) \times 8.084 + \frac{11.81V}{30}$$

$$V = \$28{,}294 - \frac{8.084V}{30} + \frac{11.81V}{30} =$$

$$\$28{,}294 + \frac{3.726V}{30}$$

$$30V = \$848{,}820 + 3.726V$$

$$26.274V = \$848{,}820$$

$V = \$32{,}300$ — the value of the building.

The foregoing may startle those who advocate the use of the "straight-line depreciation" assumption, not only because it reveals the accompanying assumption of declining net earnings, but also because the procedure or method is identical with an annuity method which assumes straight-line declines in net earnings and resorts to use of annuity factors based on Compound Discount (Inwood) premises. The analyses above also reveal the fact that, while apparently the method of capitalization in the so-called straight-line depreciation method assumes a perpetuity, it, in truth, actually treats net earnings as annuities for the period of estimated remaining economic life.

THE "SINKING-FUND" METHOD

Other methods of making provision for anticipated future depreciation are either sinking fund or annuity methods.

Here follows an illustration of the sinking fund method, as it is sometimes applied:

ILLUSTRATION No. 6, "SINKING FUND" DEVICE

1. Net income of property, ensuing 12 mos.	$ 5,000
2. Reproduction cost of building, new	$60,000
3. Accrued depreciation (by observation) 30%	18,000
4. Present value of building	$42,000
5. Yearly sinking fund contribution necessary to accumulate $42,000 in thirty years (remaining economic life of building), 3% rate of interest (.021 factor × $42,000)	882
6. Remainder (interest on value of property)	$ 4,118
7. Value of property ($4,118 capitalized at 7.5%)	$54,900

But, as before, the appraiser has concluded that the fair land value is $20,000. By the procedure just used, if the property were worth $54,900 and the building $42,000, the land could only be worth the difference, or $12,900. This indicates that the estimate of accrued depreciation was wrong, and the appraiser must revise his analysis. He may proceed as follows:

ILLUSTRATION No. 7—"SINKING FUND" DEVICE

1. Net income of property, ensuing 12 mos.	$ 5,000
2. Land earnings, 7.5% on $20,000	1,500
3. Building earnings, ensuing 12 mos.	$ 3,500
4. Capitalized value of building earnings, 7.5% return plus 2.1% (.021, sinking fund factor, 3%, thirty years, expressed in percent) yearly sinking fund contribution ($3,500 ÷ 9.6%)	$36,470
5. Value of land	20,000
6. Value of property	$56,470

Illustration No. 6 shows the shortcoming of any method which bases calculations with regard to depreciation, whether accrued or anticipated, upon cost of reproduction. If the deduction for accrued depreciation is too small, the deduction intended to offset anticipated depreciation will be greater than it should be, and the result of the analysis will, accordingly, be erroneous.

CRITICISM OF THE "SIKING-FUND" METHOD

The sinking-fund principle, illustrated above, assumes that net earnings will continue, undiminished, during the useful life

of the building, and that interest returns and building value will, therefore, continue undiminished during that period, but will suddenly terminate at the end of the useful life of the building. These assumptions are obviously unwarranted and inapplicable in the case of valuation of real estate, for it is certainly plain that buildings grow less valuable year by year as remaining useful life grows shorter, and that their net earnings also decline simultaneously since the only condition that can make them less valuable is a decline in *ability* to produce net earnings, and, therefore, an actual decline in such earnings' production.

There are other reasons why the introduction of the sinking fund device into real estate valuation technique is erroneous and confusing. It necessitates the division of net income into two fractions, one of which is treated as a constant, undiminishing dollar return in the nature of interest on value, while the other fraction is treated as a fund which must be reinvested in an investment different from the real estate property itself and of such nature as to be characterized by very small investment risk. Therefore, by this method, the real estate property does not itself return to the investor the worth of its wasting value element (that is, the buildings), but a second and separate investment, into which go the sinking fund contributions, does this. It sems rather ridiculous to say that an investor will be willing to risk his capital in the purchase of the real estate for the interest return he will obtain, but that he will not trust the real estate to return to him that portion of his investment which will be dissipated through the depreciation (loss of value) of the buildings on the land.

Furthermore, the sinking fund device when used in valuation technique introduces the necessity for a determination of investment policy by the investor with regard to handling sinking fund contributions. Different policies will affect the valuation result. Shall the funds be invested as call money at an extremely low interest rate, or in Federal obligations at a higher rate, or in some other investment at a still higher rate, but one which is still a so-called "safe" rate? The lower the rate, the greater the yearly sinking fund contribution must be; hence, the smaller will be the residual fraction of net real estate earnings, and the smaller the resultant value estimate for the property.

The valuation of a series of net annual or periodic incomes should not be made to depend upon the selection of an investment apart from the one producing the incomes which are the subject of valuation. The investor desires an answer to this question: What is the purchase price for this parcel of real estate which, if I pay it, will, first, insure to me a fair return upon the amounts I will have remaining invested in it from time to time, and, second, which will be so related to anticipated probable future net incomes from the property that, after deduction from such incomes of a fair return on the outstanding investment, the sum of the remainders of such periodic net incomes during the useful life of the buildings on the land will in the aggregate amount to that portion of the initial purchase price which is in excess of the value of the bare land? The appraiser fails to answer the question (and hence fails to fulfill his duty as a valuator) if he says, "Well, if you will reinvest such and such a portion of the net earnings in a 1% investment, or a 2% or 3% (or some other per cent), then a fair purchase price will be so much." The investor might well reply to such a statement, "What does it matter what I do with the net earnings or any part of them? How does that affect the value of the property—the price I would be warranted in

paying for it? Let the property stand on its own merits. Let the building itself pay back to me its value during its useful life." And the investor would be right.

Of course, the investor is entitled to know how investment in wasting assets is going to be amortized. The manner of such amortization, as reflected in the appraisal process, should be patterned after the manner in which the value of the wasting assets (buildings, in the case of real estate) declines, that is, depreciates; and since depreciation depends upon the manner in which benefits (net incomes) decline; therefore, the amortization (or recovery of the value) of wasting assets should be patterned after the manner in which future benefits, or net incomes, will decline.

No one ever knows just how net incomes attributable to buildings will decline; therefore, it is impossible to know exactly how depreciation will occur in any particular case. However, it is known that net building incomes do not decline in certain ways.

For example, it is known that they do not continue undiminished until the end of the last year of the useful life of a building and then drop to zero in one jump. This being true, then it appears unescapable that the conclusion is correct that any sinking-fund device is not properly usable in real estate value estimation for the purpose of making allowance for anticipated future depreciation, since the fundamental principles underlying the sinking-fund device are that:

1. Initial investment remains intact and undiminished during its life; therefore,
2. return on amount of initial investment continues undiminished during its life;
3. initial investment is recovered in one payment at the end of the investment period, or, in other words, the full scale of depreciation of building value from 100% value to 0% value occurs suddenly at one moment of time, namely, when the end of economic life arrives.

It is known, too, that usually for a period immediately after completion of a building, its net earnings continue practically or actually undiminished; and it seems entirely sound to assume that thereafter decline sets in at a slow but accelerating rate. If this be true, then the straight-line method of allowing for anticipated future depreciation is not properly usable in value estimation when it is based upon reproduction cost of buildings on land, for this device has two shortcomings:

1. It assumes a straight line decline in net earnings.
2. It assumes a decline to a point which is determined by dividing reproduction cost by years of useful life, as illustrated below:

ILLUSTRATION NO. 8—"STRAIGHT-LINE" DECLINE IN NET INCOME

Reproduction cost of building, new (and assumed value new by this method)	$200,000
Useful life	20 years
Fair rate of return	12%
First year's net earnings (12% of $200,000 plus 1/20th of $200,000)	34,000
Second year's net earnings (12% of $190,000 plus 1/20th of $200,000)	32,800
Third year's net earnings (12% of $180,000 plus 1/20th of $200,000)	31,600
Twentieth year's net earnings (12% of $10,000 plus 1/20th of $200,000)	11,200
Twenty-first year's net earnings	Zero

From the illustration above it is seen that earnings are assumed to decline $1,200 each year, but that the last year's earnings instead of being $1,200 are $11,200. This certainly appears inconsistent. A consistent application of the straight-line idea would assume that the earnings would decline 1/20 of $34,000 each year. Such a series of declining earnings at 12% would be worth ($34,000 × factor 5.2211) $177,517, instead of $200,000.

Now if it is true that net incomes produced by buildings decline slowly at first and more rapidly later on, then the investor in real estate will have to accept amortization payments of his investment in buildings in small driblets at first and larger sums later on. Advocates of the

sinking-fund idea seize upon this and say no investor wants to be paid in this fashion and, therefore, the valuation of net income should utilize the sinking-fund idea. This argument is not sound. Irrespective of the individual investor's likes or dislikes, when a rental payment is received from real estate, the recipient receives interest on the then value (not the value at time of investment) of the property and also a return of a portion of the value of the buildings. If the investor objects to recovering capital in this way, he will not be a buyer of real estate—he will buy bonds or some such type of investment which pays a fixed return and matures in a lump sum at a stated time.

THE ANNUITY METHOD

By treating net building earnings as a series of declining incomes for the useful life of the building, in any case, and calculating their discounted present worth, the depreciation problem in valuation work is solved. There are two bases of valuing such incomes: (1) by use of Hoskold premise present worth or annuity factors, (2) by use of Compound Discount premise annuity factors, sometimes called "Inwood" factors after an Englishman named Inwood who published tables of such factors in 1811. Of these two, only the latter is truly applicable to the valuation of real estate.

Use of Hoskold premise annuity factors constitutes use of a sinking-fund method and all the objections stated hereinabove with regard to the use of the sinking-fund device in realty valuation work applies to the Hoskold premise. Under Hoskold's premise two rates of interest are utilized, one called a "safe" rate, and the other a "speculative" rate.

Just where to draw the line between a safe rate and a speculative one is not known by anybody; indeed, no such line can be drawn. As a matter of fact, there is good reason for taking the position that speculative rates enter into the composition of all interest rates on the ground that any interest rate is the resultant of a galaxy of rates. Thus a return of 3% indicates a 3% over-all risk for the investment; but this 3% over-all rate is composed of innumerable rates varying through the range of rates between the lowest and the highest applied to varying portions of the expected future income. For example, the first week's net income might be valued by capitalization on a 1/100% basis, while the net income expected the last week of the twentieth year might be valued on an 80% basis, with variations between these extremes for all the weeks in between; but the over-all effect would be equivalent to valuation of the annual rate of income on a 3% basis. So the 3% investment is characterized by speculative elements as well as the 6%, or 7%, or 8% investment; the only difference is that it is presumably less speculative, hence safer, than the investments having the higher rates.[1]

Under the Hoskold premises, the investor receives interest at the so-called speculative rate upon the full initial amount of his investment throughout the entire period of investment. Of course, this is quite all right if the investment is like a bond or non-amortizing mortgage, as in such cases the amount of the investment remains fixed during its life; but if the investment is real estate, it diminishes year by year (or month by month, to be more exact) as building value declines and proportionate portions of the investment are recovered out of each monthly or yearly

[1]See *Journal of American Institute of Real Estate Appraisers*, Oct., 1934, "The Safe-Risk Rate Formula," Burroughs. Also see *Valuation of Real Estate*, F. M. Babcock, pp. 155, 432.

rental payment. Return on the investment likewise diminishes as capital is thus recovered. Therefore, the Hoskold premise does not fit the requirements of the real estate valuation problem.

The Hoskold premise also requires the reinvestment of a fraction of each payment of income as a sinking fund. This reinvestment is made at the so-called "safe" rate ("safer" rate would be more exactly descriptive). These reinvested funds and their interest accretions accumulate to an amount equal to the initial amount of the investment at the end of the investment period, and are then available to the investor to enable recovery of his invested funds so that he will suffer no loss because of depreciation which has taken place. Again it is seen that this does not fit the realty valuation problem requirements, for in this problem investment is not recovered at the end of useful life of buildings but is recovered in part out of each periodic rental payment and in whole out of them all during the period of useful life.

To illustrate the Hoskold premise annuity method, the following tabulation is given, using the same assumed conditions as in Illustration No. 7 above:

1.	Net income of property, ensuing 12 months	$ 5,000
2.	Land earnings, 7.5% on $20,000	1,500
3.	Building net earnings	$ 3,500
4.	Hoskold annuity factor, thirty years, 7.5% speculative rate, 3% safe (sinking fund) rate	10.42
5.	Value of building earnings ($3,500 × 10.42)	$36,470
6.	Value of property	$56,470

It will be noted if comparison of the illustration just given is made with Illustration No. 7 that the result is identical. In fact the entire theory and method is identical in each of these illustrations. The only difference is that, in one, net income is capitalized by dividing by 9.6%, the sum of the interest rate (.075) and the sinking fund factor (.021), while in the Hoskold illustration above net income is multiplied by 10.42, which figure is the

$$\text{reciprocal } \left(\frac{1}{9.6\%}\right) \text{ of } 9.6\%.$$

The two operations are identical, as $\frac{\$3,500}{9.6\%}$ is the same as $\$3,500 \times \frac{1}{9.6\%}$

$$\text{or } \$3,500 \times \frac{1,000}{96} \text{ or } \$3,500 \times 10.42$$

This gives rise to the question: "If sinking-fund premises are to be used at all, why not maintain simplicity when dealing with level incomes and merely divide by the sum of the interest rate and sinking-fund factor, thereby avoiding resort to Hoskold annuity tables?"

The above illustration of the Hoskold premise annuity is based upon the assumption that net building earnings will remain constant throughout the thirty years of remaining useful building life. The assumption can be modified to postulate declining earnings. If this is done, the theory of the Hoskold premise as stated hereinabove is not affected; the investor still receives a fixed return based on the initial value of the investment, and he recovers no portion of the investment until the end of the investment period when the sinking-fund investment matures and comes into his possession. Because the total net earnings decline, but the interest payment to the investor is fixed, the result is that the contributions from net income to sinking fund grow less and less as total net earnings decline. This is shown in Illustration No. 9.

ILLUSTRATION No. 9—HOSKOLD ANNUITY DEVICE—DECLINING NET INCOME

Year	Income Distribution at End of Year		Sinking Fund				Invested in Property
	Year's Net Income	Interest Paid Investor	Contributions to Sinking Fund	In Fund at Start of Year	Interest Earned During Year	In Fund at End of Year	
Column Process	B	C 10% of H	D B–C	E From G preceding Year	F 3% of E	G D+E+F	H
1	$1,000	$307	$693	$ 000	$00	$ 693	$3,070
2	900	307	593	693	21	1,307	3,070
3	800	307	493	1,307	39	1,839	3,070
4	700	307	393	1,839	55	2,287	3,070
5	600	307	293	2,287	69	2,649	3,070
6	500	307	193	2,649	79	2,921	3,070
7	400	307	93	2,921	88	3,102	3,070
8	300	307	—7	3,102	93	3,188	3,070
9	200	307	—107	3,188	96	3,177	3,070
10	100	307	—207	3,177	95	3,065	3,070

CRITICISM OF THE HOSKOLD PREMISE

It will be noted that in the illustration given a ridiculous condition is evidenced. The net income is assumed to decline in a straight line from $1,000 the first year to $100 the tenth and last year. Under the Hoskold premise, the return to the investor is fixed, and in the illustration 10% or $307.00 is paid the investor each year. As the net income declines, contributions to the sinking fund decrease. The sinking fund, however, increases and becomes more valuable than the initial investment in the 7th, 8th, 9th and 10th years, during which time it is drawn upon so that the investor can be paid his $307 interest. At the end of the 7th year the investor could take the sinking fund accumulations and thereby fully recover more than the amount originally invested; but, under the premises governing the case, the useful life of the property continues for ten years and the sinking fund cannot be touched before the end of the tenth year. Obviously the Hoskold premise penalizes the valuation by reflecting a figure which is lower than it rightly should be.

Of course, if the series of net incomes were modified so that the smallest amount exceeded the interest requirement, the condition shown in Illustration No. 9 would not prevail. For example, if the income began at $2,000 and declined $100 per year to $1,100 in the tenth year, the sinking fund would not accumulate to the original value or investment ($8,405 in such case) until the end of the investment period. But, if one is dealing with the net earnings of a building, it is plausible to assume that the income will gradually decline to the vanishing point, as, for example, from $1,000 to $100, and then stop, rather than to drop less sharply, as from $2,000 to $1,100, and then instead of continuing to diminish gradually, to become exhausted suddenly, dropping from $1,100 one year to zero thereafter.

In any event, the use of the Hoskold premise annuity in connection with a series of declining net earnings, assumes that the sinking fund contributions grow successively smaller year by year. This implies that depreciation accrues at the greatest rate in the first years of the life of a building and at the smallest rate towards the end of useful life. Such an assumption is untenable and again illustrates the inappropriateness of the Hos-

kold premise for use in realty valuation work.

COMPOUND DISCOUNT ANNUITY METHOD

The use of the Compound Discount (Inwood) premise annuity meets all the requirements of the real estate valuation problem, where net income is the controlling factor. When applied in conjunction with declining net incomes, it automatically solves the problem of providing for anticipated future depreciation. Under this premise, the investor need not resort to a second investment (namely, a sinking-fund investment) in order to recover the value of a wasting realty asset. He receives interest at a fair rate on the invested amount outstanding at any time, and the net income from the property itself returns to him the value that is dissipated as deterioration and obsolescence affect the building on the land and cause a decline in net income and a shortening of useful life. The application of the Compound Discount (Inwood) premise to the case dealt with in Illustration No. 9 is shown in Illustration No. 10.

ILLUSTRATION NO. 11—COMPOUND DISCOUNT (INWOOD) ANNUITY DEVICE—LEVEL NET INCOME

1.	Net income of property, ensuing 12 mos.	$ 5,000
2.	Land earnings, 7.5% on $20,000	1,500
3.	Building net earnings	$ 3,500
4.	Compound Discount (Inwood) annuity factor, 30 yrs., 7.5% rate	11.81
5.	Value of building earnings ($3,500 × 11.81)	$40,300
6.	Value of property	$60,300

If it be assumed that the net building earnings in Illustration No. 11 will decline in a straight line to zero in the 31st year, then this series of earnings during the 30 years of receipt would be valued by use of the Compound Discount (Inwood) premise annuity at $3,500 × 8.0843 factor at 7.5% rate) $28,300 and the property value would be $48,300.

Various assumptions can be made as to the manner in which net building earnings will decline in response to forces which cause deterioration and obsolescence, and, hence, depreciation. There are a few published tables giving present worth factors for valuing declining incomes. Frederick M. Babcock's book, *The Valuation of Real Estate*, contains such tables, based on declines in the nature of both straight lines and curves. George L. Schmutz's book,

ILLUSTRATION NO. 10—COMPOUND DISCOUNT ANNUITY DEVICE—DECLINING NET INCOME

(Value of Net Income—$3,855. (10% rate of discount.)

Year	Year's Net Income	Income Distribution at End of Year: Interest Paid Investor	Capital Returned to Investor	Amount Remaining invested at End of Year	Total Capital Repaid to Investor
Column	B	C	D	E	F
Process		10% of E Preceding Year	B-C	$3,855 Minus F	Sum of Amounts in D
1	$1,000	$386	$614	$3,241	$ 614
2	900	324	576	2,665	1,190
3	800	267	533	2,132	1,723
4	700	213	487	1,645	2,210
5	600	165	435	1,210	2,645
6	500	121	379	831	3,024
7	400	83	317	514	3,341
8	300	51	249	265	3,590
9	200	26	174	91	3,764
10	100	9	91	0	3,855

Application of the Compound Discount (Inwood) premises annuity using the same net income figures utilized in Illustration No. 7 for purposes of comparison in Illustration No. 11:

Appraisers' Interest Tables, also contains such tables, their basis being declines of a fixed percentage per year. Formulas for valuing changing incomes on many other bases appear in Grimes and Craigue's book, *Principles of Valuation.* With tools such as these several publications put into the hands of the appraiser, he is enabled to select a plausible series of future net incomes and calculate their equivalent worth, giving full effect to anticipated depreciation.

The Compound Discount (Inwood) premise is sometimes condemned on the basis of the following allegations. It is alleged:

1. That the Compound Discount (Inwood) premise appears to involve only one interest rate, a rate of return on the investment, but that in reality it also involves a second rate;
2. that this second rate is a rate of return on a sinking fund;
3. that this second rate is identical in amount with the first;
4. that sums to recover the investment in buildings can not be invested with safety at such high rates of return as an investor in real estate demands, and safety is an absolute essential of any sinking fund.

It is to be readily admitted that sinking funds cannot be established at high rates of return and still be characterized by degrees of safety adequate for and necessary for the purpose of such funds; but this is no admission of weakness with regard to Inwood premise annuity factors.

COMPARISON OF COMPOUND DISCOUNT AND HOSKOLD ANNUITY METHODS

To prove the first three allegations stated above, critics set up beside a tabulation such as is given in Illustration No. 10, one like Illustration No. 12.

The above tabulation shows that the same result is obtained by using a Compound premise annuity factor and a Hoskold factor if both rates in the Hoskold formula are the same as in the Compound Discount formula, but this does not prove the allegations of the critics. To claim that the use of a 10% Compound Discount factor involves the need to resort to a 10% sinking fund simply because a Hoskold 10%-10% factor gives the same answer is like saying that a man will be in the same situation if he buys three shirts at $5.00 each as if he buys five at $3.00 apiece, simply because the total cost will be the same. It is also the same as saying to the real estate owner:

> "Look here, you think this building is getting less valuable each year and that, therefore, you must each year accept less and less earnings from it—aside from the earnings of the land, but this is not so. You are receiving a fixed and undiminishing return of 10% on your original investment, as this illustration (No. 12) shows.

ILLUSTRATION NO. 12—HOSKOLD ANNUITY DEVICE—DECLINING NET INCOME

Value of Net Income—$3,855—(10%-10% rates of return)

Year	Year's Net Income	Income Distribution at End of Year		In Fund at Start of Year	Sinking Fund Interest Earned During Year	In Fund at End of Year
		Interest Paid Investor	Contributed to Sinking Fund			
Column Process	B	C 10% of $3,855	D B-C	E	F 10% of E	G D+E+F
1	$1,000	$386	$614	$ 000	$000	$ 614
2	900	386	514	614	61	1,189
3	800	386	414	1,189	119	1,722
4	700	386	314	1,722	172	2,208
5	600	386	214	2,208	221	2,643
6	500	386	114	2,643	264	3,021
7	400	386	14	3,021	302	3,337
8	300	386	—84	3,337	334	3,587
9	200	386	—184	3,587	359	3,762
10	100	386	—284	3,762	376	3,854

You think that you will recover your investment in buildings little by little out of the net income periodically produced by the property as shown in illustration No. 10, but you are wrong. You can only recover this portion of your investment by taking a part of the net income and investing it in a 10% sinking fund, as demonstrated in Illustration No. 12. You think that the value of this series of expected net building incomes is $3,855 (Illustration No. 10), but your conclusion is based on these delusions which you entertain. Since you can't have safety in a 10% sinking fund—and you are relying upon such a fund though you don't know it—you must be mistaken. A 3% sinking fund rate of return is the greatest you can expect with safety, and therefore the value is only $3,070 (Illustration No. 9.)"

All this argument would be an effort to, in effect, hypnotize the real estate owner into believing claims and viewpoints which were not true. The actual truth is—and this is the answer to the allegations stated above—that no sinking fund or sinking-fund interest rate is involved or implied in the Compound Discount (Inwood) premise annuity factors. Furthermore, the actual truth is that the values of buildings gradually decline. Therefore, the investor in real estate cannot properly demand that the appraiser base his valuation on an assumption that net returns attributable to a building be calculated on the basis of a percentage of a fixed, undiminishing value ascribed to that building. And still further, the truth is that the value of a building *is* directly recovered by the investor in fractional amounts which are parts of every receipt of net income. This process continues and is completed during the useful life of the building. Therefore, the real estate investor need not depend on a sinking fund at any rate and the appraiser need not base his estimates on the use of sinking funds.

Even if the application of the sinking fund concept in realty valuation technique were to be admitted as correct, then it would follow that the property itself would constitute the sinking fund investment, for the property itself must repay the investor any portion of his capital that must be recovered. Furthermore, every dollar invested in the property is subject to the same degree of risk, and it would logically follow that if the investor demanded a 10% return on his money, he must be willing to accept the hazard represented by a 10% sinking fund rate, else he will not invest in the property. If he demands the safety represented by a 3% investment return, he will not risk his capital in a 10% investment.

The sole effect of using a Hoskold premise annuity factor with two different interest rates is to increase the over-all rate of return to the investor. Thus, in Illustration No. 9, while it appears that the investor gets 10% on his investment, the truth is that he gets an over-all return of 18% with the initial investment at $3,070. That is to say, if net income were apportioned so as to give him 18% on amounts outstanding in the investment each year, the remainder of net yearly income would return $3,070 to him over the ten-year period. While such a valuation procedure might be welcomed by buyers, it would not be fair to sellers, and unless the views of both buyers and sellers are considered in evolving appraisal techniques, the techniques will be incorrect.

It is hoped that this paper will aid in the crystallization of viewpoints of members of the American Institute of Real Estate Appraisers with regard to proper technique in making necessary allowances to give effect to anticipated depreciation. Opinion is now divided: it should become united as quickly as possible, especially in view of an increasing demand for Institute courses of instruction in real estate valuation. While all viewpoints can be presented in educational courses, unsound concepts should be exposed and rejected, sound ones should be approved, and the

pros and cons of debatable matters should be thoroughly expounded.

The solution of the depreciation angle of the realty valuation problem depends upon the answer to the question: How will depreciation occur during future periods of time? We now have insufficient knowledge of how it has occurred during past periods. Research is needed here. Such work as is being done in the Federal Housing Administration by the Division of Economics and Statistics will develop data that will be very useful.

In the illustrations in this paper where a 7.5% interest or risk rate was used, this was an "over-all" rate applicable to earnings of both land and improvements thereon. An over-all rate was used simply for purposes of simplification. The question as to the propriety of use of "split" rates is left untouched, and no implications with regard to that matter are made herein.

SUMMARY

1. Value depends not only on capacity for utility but upon the extent of the need, or the intensity of the desire, of people to avail themselves of the opportunity to use that capacity.
2. Utility and capacity for utility are different things.
3. Utility is limited by capacity for utility, but it is dependent upon the need or desire to utilize that capacity.
4. Depreciation means decline in value. It is, therefore, always an economic phenomenon.
5. Depreciation arises from lessening of capacity for utility or from diminished need or desire to utilize capacity for utility.
6. Estimating accrued depreciation is not the primary function of the appraiser. It concerns his operations only indirectly.
7. The appraiser is concerned with forces that may or will cause depreciation in the future.
8. Such forces cause diminishing need or desire to utilize capacity for utility, or may operate to terminate the legal right to utilize it.
9. Such forces include; (a) those causing deterioration, (b) those causing obsolescence.
10. Deterioration is a change for the worse in physical condition; it lessens capacity for utility by limiting physical life.
11. Obsolescence is a negative change in the right to use, or in the ability to arouse or sustain the desire to use, arising from causes other than deterioration; it lessens utility by lessening useful life.
12. Deterioration and obsolescence operate to reduce the quantity and/or duration of the net incomes (dollars or services) which a property can produce.
13. Real estate valuation procedure must reflect the operation of these forces by basing forecasts of probable future net incomes of buildings on premises which anticipate declines in such incomes.
14. Devices most commonly used for this purpose are those known as: (a) the straight-line method; (b) the sinking fund method; (c) the Hoskold premise annuity sinking fund method; and (d) the Compound Discount premise annuity method, sometimes identified with Inwood's name.
15. The straight-line method of estimating accrued depreciation is erroneous in principle though sometimes useful.
16. The straight-line method of allowing for anticipated depreciation contains the hidden assumption that future net income will decline in a straight line during useful building life to an amount which is equal to Building Value divided by Useful Life plus one year's interest return on this amount.
17. This method is identical with the Compound Discount (Inwood) premise annuity method using the same forecast of net incomes.
18. The sinking fund method as ordinarily applied and the Hoskold premise annuity sinking fund method are identical if level future net income forecasts are used.
19. Any sinking fund method utilizes the premise that interest returns on the initial investment remain undiminshed during the entire term of investment, and that no portion of the initial investment is recovered until the sinking fund matures at the end of the period when the entire amount of initial investment is recovered in one lump sum.
20. If the Hoskold premise is used in conjunction with a series of declining net incomes, then the sinking fund contributions are largest at the beginning and smallest towards the end of the investment period, and will become negative if the net incomes are expected to decline to zero in a progressive order.
21. No sinking fund method fits the conditions of a real estate investment for in such an investment the building involved declines in value as time progresses, net building earnings likewise decline, and investment is directly recovered out of income as these declines take place; thus a sinking fund—actually or by implication—can not properly enter into the considerations.
22. The Compound Discount premise annuity method fits the real estate valuation problem

requirements. It is not a sinking fund method for it offsets accruing depreciation by direct recovery of capital out of income rather than from a sinking fund. It also results in justice to both sellers and investors for it insures to the seller a price (the value of the property) which is not penalized by resort to a sinking fund method, and assures the investor a return of capital as depreciation occurs, and a fair return upon the remaining sum invested in the property.

23. By formulating the "most probable net income" forecast in accordance with the forecast as to how depreciation will most likely affect net income during the remaining useful building life, and by utilizing a Compound Discount premise annuity factor (the most acceptable and appropriate valuation device), a device for giving effect in the valuation process to anticipated future depreciation will have been utilized.
24. The real depreciation problem is: How will net benefits vary in a given case in the future, and when will deterioration and obsolescence terminate useful building life? Research is necessary in solving this problem. The Federal Housing Administration and other agencies engaged in real estate research work will enable progress to be made.

In conclusion, it is reiterated that fundamentally correct real estate valuation procedure concerns itself with the making of plausible estimates of future net incomes—whether in dollars or services. This necessitates knowledge and understanding of the nature and manner of operation of the causes of depreciation; that is, of the forces which cause declines in net incomes. The depreciation angle of the valuation problem is incorrectly handled when it is related to construction costs and other past events. It is correctly and automatically handled when related to future events which will cause variations in the quantity and duration of net incomes. The real problem, therefore, is to determine what is the most probable series of future net incomes which any property being appraised will produce, and then to estimate the equivalent dollar value of this series by discounting at proper risk rates.

To cope with the depreciation problem in realty valuation work, we must look to the past for lessons of experience, but the problem can only be solved by applying what has been learned from past experience when making estimates with regard to probable future net incomes. The past —accrued depreciation—is relatively unimportant. The future—probable net incomes—is all-important.

* * *

Some Annuity Computations

By GEORGE L. SCHMUTZ, M. A. I.

THERE appears to be a somewhat universal lack of understanding of the mathematics of capitalization, particularly the "declining annuities." The purpose of this article is to attempt to bridge this gap, not only by means of illustrations, but by supplying several new tables never hitherto published.

Some criticism has been leveled at "declining annuities," either because of alleged impracticability, or for the reason that no one can peer into the future and say that the income will decline at 3% or 10%, or at any other rate.

Common practice correctly considers net income as the yardstick by which value is measured; and the value of a wasting asset, *e.g.*, a building, is properly considered as being the *present worth of its future net incomes.* Unfortunately, and utterly unreasonably as well, these future incomes not uncommonly are computed as "level" annuities, *i.e.*, unchanging in annual amount.

For illustration, the net income to a building at present may be found to be $1,000 per year. The structure may be assigned a remaining useful life (economic rather than physical life) of 20 years. The interest rate at which such net incomes should be capitalized (*i. e.*, discounted) may be 8%. Then, according to common practice, the building is said to be worth $9,818. This is the present worth of an annual income of $1,000 per year for 20 years, at 8%.

Though not consciously asserted, there is unconsciously involved the assumption that the structure will produce the same amount of net income each year during every year of its remaining life; that the value of the structure will be exactly the same at any and at all times in the future, irrespective of its age, up to 20 years, and that the depreciation will all occur over night, at the end of the last day of the 20th year.

This assumption is so diametrically opposed to the way depreciation actually occurs, as evidenced by every day experience, that it warrants more than passing mention. Depreciation, *i. e.*, loss in value, is a creeping condition, slowly but surely taking its toll. Irrespective of whether the loss in value occurs in a straight line, *i. e.*, at an uniform annual rate, or declines at changing rates, the fact remains that the structure does not maintain a constant value thruout its entire life, and then lose all value in one "fell sweep," as if by fire.

Buildings are wasting assets. There comes a time when all value is gone. This does not happen all at once, but rather occurs gradually over a period of years. If, for illustration, it is more reasonable to assume that the depreciation in value will take place at the uniform rate of 5% per annum for 20 years, then an income of $1,000 per year is today worth $6,360 (See Table III). Thus, the fallacious assumption of the level annual income referred to above has over-valued the building by 54% (from $6,360 to $9,818).

This points out the necessity of recognition of the declining tendency of the value of any wasting asset, such as a building.

The following computations are shown for the sole purpose of delineating mathematical procedure. In these examples it is assumed that the appraiser has made his

studies and arrived at the conclusions stated in the problems, and that the task is merely one of mathematical computation.

GROUND RENTALS—SHORT TERM LEASES

Problem 1

What is the Present Worth of, that is to say, how much could an investor afford to pay for, an assignment of the net rentals payable under a ground lease which provides for the payment of $1,000 each year, payable at the end of each year, for a 10-year term, assuming that the investor desired 7% interest on his investment?

Solution

In an ordinary "annuity table," in the 7% column, in the line opposite 10 years, is found the factor 7.024 which means that each dollar of the annual income is today worth $7.024.

Then $1,000 × $7.024 equals $7,024—which is the answer.

Note: This figure, $7.024 also represents the amount of the single cash payment necessary to pay the full (10 years) rental in advance.

Problem 2

In Problem 1 above, what would be the answer if the net rental payments were to be made at the *beginning* of each year, *i. e.*, in advance?

Solution

In this case, one rental payment would be made at the time of the assignment, *i. e.*, the closing of the deal. Therefore, the problem becomes one of computing the Present Worth of 9 annual payments (one less than the total number) and adding thereto the amount of one payment.

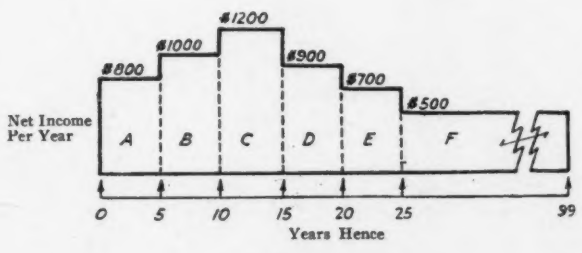
Thus, in the same ordinary "annuity table" used in problem 1, in the 7% column, in the line opposite 9 years, is found the factor 6.515 to which must be added 1, for the initial payment, which totals 7.515.

Then, $1,000 × 7.515 equals $7,515—which is the answer.

GROUND RENTALS—LONG TERM LEASES

Problem 3

What is the Present Worth of an annual *net* income, e. g., from a long term ground lease, of $800 per year for 5 years; $1,000 per year for the next 5 years; $1,200 per year for the next 5 years; $900 per year for the next 5 years; $700 per year for the next 5 years; and $500 per year for the remainder of a 99-year term? Use an interest rate of 6%, and assume that the rentals will be paid at the *end* of each year.



PROBLEM 3

Solution

First, set up the Present Worth Factors applicable to the various "blocks" of incomes which are graphically shown in the sketch above. Use the 6% column in an ordinary "annuity table" to find the factors.

P. W. of One per Annum		Deferred Years	Deferred Factor	Income Block
for 5 years	= 4.212	0	4.212	"A"
for 10 years	= 7.360	5	3.148	"B"
for 15 years	= 9.712	10	2.352	"C"
for 20 years	= 11.470	15	1.758	"D"
for 25 years	= 12.783	20	1.313	"E"
for 99 years	= 16.615	25	3.832	"F"

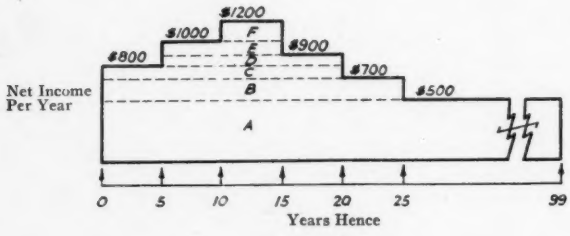
Note that the P. W. factor for Block "B," *i.e.*, for an equal annual income for 5 years but deferred 5 years, *i. e.*, an income from the 5th to the 10th years, is found by subtracting the 5th year factor from the 10th year factor.

Note that the Present Worth of Block "B" (an equal annual income of $1,000 per year for 5 years, but deferred 5 years) as of today, can also be computed by considering it as of 5 years hence and then reverting it back to the present time, by means of a "present worth of one factor."

For illustration, one per annum for 5 years is 4.212. Then $1,000 × 4.212 = $4,212, which is the worth of the annuity as of 5 years hence. Reference to a Present Worth of One table shows that one dollar collectable 5 years hence is today worth $0.7360. Then $4,212 × .7360 = $3,148 which is the Present Worth (as of today) of Block "B," as above shown.

Problem 4

This Problem is exactly the same as Problem 3. It is here computed in a different manner, as graphically shown in the sketch below.



PROBLEM 4

Then, the P. W. of the various blocks of incomes are:

"A"	$ 800 × 4.212 =	$ 3,369.60
"B"	1,000 × 3.148 =	3,148.00
"C"	1,200 × 2.352 =	2,822.40
"D"	900 × 1.758 =	1,582.20
"E"	700 × 1.313 =	919.10
"F"	500 × 3.832 =	1,916.00
Total Present Worth	=	**$13,757.30**

Note that this answer, $13,757.30, indicates the value of the "leased fee," which is the lessor's interest.

Solution

Block "A" ($500 per yr. for 99 yrs.)	
$500 × 16.615 = ...	$ 8,307.50
Block "B" ($200 per yr. for 25 yrs.)	
$200 × 12.783	2,556.60
Block "C" ($100 per yr. for 20 yrs.)	
$100 × 11.470	1,147.00
Block "D" ($100 per yr. for 15 yrs. deferred 5 yrs.)	
$100 × (11.470—4.212)	
100 × 7,258	725.80
Block "E" ($100 per yr. for 10 yrs. deferred 5 yrs.)	
$100 × ($9.712—4.212)	

100 × 5,500	550.00
Block "F" ($200 per yr. for 5 yrs. deferred 10 yrs.)	
$200 × (9.712—7.360)	
200 × 2.352	470.40
Total Present Worth.....	**$13,757.30**

BUILDING INCOMES—DECLINING ANNUITIES

Problem 5

What is the value of a building, that is to say, what is the Present Worth of the net income stream imputable to a building assuming that the net income (after maintenance, repairs, and replacement charges have been deducted) to be as follows:

$1,000 per year for 5 years; $1,200 per year for the next 5 years; $800 per year for the next 5 years; and for the next 10 years the income declines at the uniform rate of 3% per annum (from $800 to $560 per year); and for the next 10 years the income declines at the rate of 10% per annum (from $560 to zero per year)? Use an 8% interest rate.

Solution

First, set up the Present Worth factors applicable to the various blocks of income which are graphically shown in the sketch above.

THE LEVEL ANNUAL INCOME

Present Worth of One per Annum	Deferred Years	Deferred Factor	Income Block
for 5 years = 3.993	0	3,993	"A"
for 10 years = 6.710	5	2.717	"B"
for 15 years = 8.559	10	1.849	"C"

THE DECLINING ANNUAL INCOME (TABLE III)

Present Worth of One per Annum
for 10 years @ — 3% each year = 5.93
for 10 years @ — 10% each year = 4.11

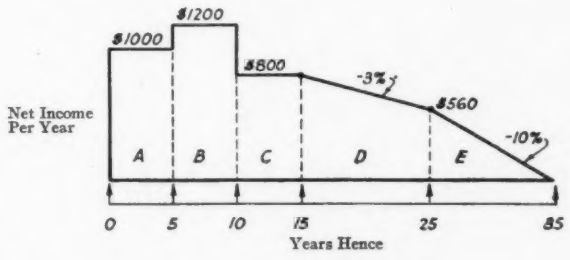
THE PRESENT WORTH OF ONE

collectible 15 years hence = 0.3152
collectible 25 years hence = 0.1460

Then the Present Worths of the various income blocks are:

"A"	$1,000 × 3.993	$3,993.00
"B"	2,200 × 2.717	3,260.40
"C"	800 × 1.849	1,479.20
"D"	800 × 5.93 × .3152 =	1,495.31
"E"	560 × 4.11 × .1460 =	336.03
Total Present Worth.....=		**$10,563.94**

The present worth of block "D" of the income was computed as follows: an initial income of $800 per year multiplied by 5.93,



PROBLEM 5

the factor for an income declining at the rate of 3% per year for 10 years produces $4,744 as the present worth of this income, *as of 15 years hence.* This must be discounted to today's worth by multiplying it

by the factor for the present worth of one, a single payment (like a reversion). The factor is 0.3152.

Block "E" was computed in like manner as block "D."

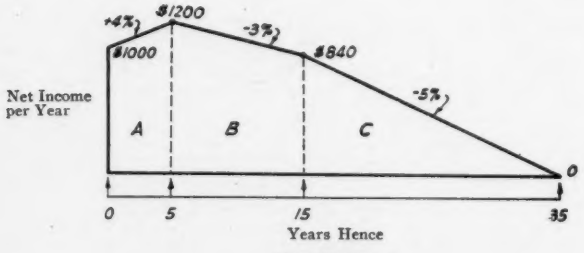
Problem 6

What is the value of a building, that is to say, what is the present worth of the net income stream imputable to it, assuming the net income (after maintenance, repair, and replacement charges have been deducted), to be as follows:

An initial net income of $1,000 the first year which increases annually at the rate of 4% per year for a term of 5 years (from $1,000 to $1,200 at the end of the 5th year); then decreasing at the rate of 3% per annum for the next 10 years (from $1,200 to $840 per year); then decreasing at the rate of 5% per year for the next 20 years (from $840 per year to zero)? Use an 8% interest rate.

Solution

First, set up the Present Worth factors applicable to the various income blocks which are graphically shown in the sketch above.



PROBLEM 6

THE CHANGING ANNUAL INCOME (TABLE III)

Present Worth of One per Annum
for 5 years @ + 4% per year = 4.29
for 10 years @ — 3% per year = 5.93
for 20 years @ — 5% per year = 6.36

THE PRESENT WORTH OF ONE (SINGLE PAYMENT)

collectible 5 years hence = 0.6806
collectible 20 years hence = 0.2145

Then, the Present Worths of the various income blocks are:

"A"	$1,000 × 4.29	$4,290.00
"B"	1,200 × 5.93 × 0.6806 =	4,843.15
"C"	840 × 6.36 × 0.2145 =	1,145.94
Total Present Worth		**= $10,279.09**

$1,200 × 5.93 = $7,116 which is the value of the income block "B" as of 5 years hence. Then, this figure multiplied by 0.6806, the present worth of one collectible 5 years hence, is $4,843.15 which is the value of the income as of today.

PROPERTY INCOMES—DECLINING ANNUITIES

Problem 7

What is the value of a property (land and building as a unit), that is to say, what is the present worth of the net income imputable to the property, assuming the net annual income (after maintenance, repairs, and replacement charges have

been deducted) to be as follows:

$1,200 per year for 5 years; $1,000 per year during the next 15 years; and then a net income declining at the rate of 4% per annum for the next 20 years (from $1,000 to $200 per year) at the end of which time the land is assumed to be worth $3,333, being an estimated net income of $200 per year capitalized at 6% interest. The value of the building is assumed to be zero at the end of 40 years. Use an 8% rate in computing the value of the income.

Solution

First, set up the Present Worth Factors applicable to the various blocks of income, which are graphically shown in the sketch above.

THE LEVEL ANNUAL INCOME

Present Worth of One per Annum	Deferred Years	Deferred Factor	Income Block
for 5 years = 3.993	0	3.993	"A"
for 20 years = 9.818	5	5.825	"B"

THE DECLINING ANNUAL INCOME (TABLE III)

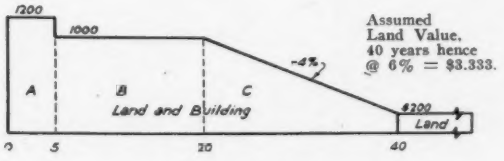
Present Worth of One per Annum for 20 years @ — 4% per year = 7.06

THE PRESENT WORTH OF ONE (SINGLE PAYMENT)

collectible 20 years hence = 0.2145
collectible 40 years hence = 0.0460

Then, the Present Worths of the various income blocks are:

"A"	$1,200 × 3.993	$4,791.60
"B"	1,000 × 5.825	5,825.00
"C"	1,000 × 7.060 × 0.2145 =	1,514.37
Total Present Worth of Income		**= $12,130.97**
Add present worth of land value collectible 40 years hence $3,333 × 0.0460 =		153.32
Total Value of Property		**= $12,284.29**



PROBLEM 7

TABLE I—PRESENT WORTH OF AN ANNUITY

Compound Interest Valuation Premise (Inwood) 6%

Income annually **decreasing** at rate shown below

Years	—3%	—4%	—5%	—7%	—10%	—12%	—14%	—20%
1	0.94	0.94	0.94	0.94	0.94	0.94	0.94	0.94
2	1.81	1.80	1.79	1.77	1.74	1.73	1.71	1.66
3	2.60	2.57	2.54	2.49	2.42	2.36	2.31	2.16
4	3.32	3.27	3.22	3.12	2.97	2.87	2.77	2.48
5	3.97	3.89	3.82	3.66	3.42	3.26	3.10	2.63
6	4.57	4.46	4.34	4.11	3.77	3.54	3.31	
7	5.12	4.96	4.81	4.50	4.04	3.73	3.42	
8	5.61	5.42	5.22	4.82	4.23	3.83	3.43	
9	6.06	5.82	5.57	5.08	4.34	3.85		
10	6.47	6.18	5.88	5.29	4.40			
11	6.84	6.49	6.14	5.45				
12	7.17	6.77	6.37	5.56				
13	7.47	7.01	6.55	5.63				
14	7.74	7.23	6.71	5.67				
15	7.99	7.41	6.83	5.68				
16	8.20	7.57	6.93					
17	8.39	7.70	7.01					
18	8.57	7.81	7.06					
19	8.72	7.91	7.09					
20	8.85	7.96	7.10					

Income annually **increasing** at rate shown below

Years	+3%	+4%	+5%	+7%	+10%	+12%	+14%	+20%
1	0.94	0.94	0.94	0.94	0.94	0.94	0.94	0.94
2	1.86	1.87	1.88	1.90	1.92	1.94	1.96	2.01
3	2.75	2.78	2.80	2.85	2.93	2.98	3.03	3.19
4	3.61	3.66	3.71	3.81	3.96	4.06	4.16	4.45
5	4.45	4.53	4.61	4.77	5.01	5.16	5.32	5.80
6	5.26	5.38	5.49	5.72	6.06	6.29	6.52	7.21
7	6.05	6.20	6.35	6.66	7.13	7.44	7.74	8.67
8	6.80	7.00	7.20	7.60	8.19	8.59	8.99	10.18
9	7.54	7.78	8.03	8.52	9.26	9.75	10.24	11.72
10	8.25	8.54	8.84	9.43	10.32	10.91	11.50	13.28
11	8.93	9.28	9.63	10.33	11.37	12.07	12.77	14.86
12	9.59	10.00	10.40	11.21	12.42	12.22	14.03	16.45
13	10.23	10.69	11.15	12.07	13.45	14.37	15.29	18.04
14	10.85	11.36	11.88	12.91	14.46	15.50	16.53	19.64
15	11.44	12.01	12.59	13.74	15.47	16.62	17.77	21.22
16	12.01	12.64	13.28	14.55	16.45	17.72	18.99	22.80
17	12.56	13.25	13.95	15.33	17.42	18.80	20.19	24.35
18	13.09	13.84	14.59	16.10	18.36	19.87	21.37	25.89
19	13.60	14.41	15.22	16.85	19.29	20.91	22.54	27.42
20	14.09	14.96	15.83	17.58	20.19	21.94	23.68	28.91

TABLE II—PRESENT WORTH OF AN ANNUITY

Compound Interest Valuation Premise (Inwood) 7%

Income annually **decreasing** at rate shown below

Years	—3%	—4%	—5%	—7%	—10%	—12%	—14%	—20%
1	0.93	0.93	0.93	0.93	0.93	0.93	0.93	0.93
2	1.78	1.77	1.76	1.75	1.72	1.70	1.69	1.63
3	2.55	2.52	2.50	2.45	2.37	2.32	2.27	2.12
4	3.24	3.20	3.15	3.05	2.91	2.81	2.72	2.43
5	3.87	3.79	3.72	3.56	3.34	3.18	3.03	2.57
6	4.44	4.33	4.22	4.00	3.67	3.45	3.23	
7	4.95	4.80	4.65	4.36	3.92	3.62	3.33	
8	5.41	5.22	5.03	4.66	4.09	3.72	3.34	
9	5.82	5.59	5.36	4.90	4.20	3.74		
10	6.19	5.91	5.64	5.08	4.25			
11	6.52	6.20	5.87	5.23				
12	6.82	6.45	6.07	5.33				
13	7.09	6.66	6.24	5.39				
14	7.32	6.85	6.38	5.43				
15	7.53	7.01	6.49	5.44				
16	7.72	7.14	6.57					
17	7.88	7.26	6.63					
18	8.03	7.35	6.38					
19	8.16	7.43	6.71					
20	8.27	7.49	6.72					

Income annually **increasing** at rate shown below

Years	+3%	+4%	+5%	+7%	+10%	+12%	+14%	+20%
1	0.93	0.93	0.93	0.93	0.93	0.93	0.93	0.93
2	1.83	1.84	1.85	1.87	1.90	1.91	1.93	1.98
3	2.70	2.72	2.75	2.80	2.87	2.92	2.97	3.12
4	3.53	3.58	3.63	3.72	3.87	3.96	4.06	4.35
5	4.33	4.41	4.48	4.64	4.86	5.02	5.17	5.63
6	5.10	5.21	5.31	5.53	5.86	6.08	6.30	6.96
7	5.83	5.98	6.12	6.42	6.86	7.15	7.45	8.33
8	6.53	6.72	6.91	7.29	7.85	8.23	8.60	9.73
9	7.21	7.44	7.67	8.13	8.83	9.29	9.75	11.14
10	7.85	8.13	8.41	8.96	9.79	10.35	10.90	12.57
11	8.47	8.80	9.12	9.77	10.74	11.39	12.04	13.99
12	9.06	9.44	9.81	10.56	11.68	12.42	13.17	15.41
13	9.63	10.05	10.47	11.32	12.59	13.44	14.28	16.82
14	10.17	10.64	11.11	12.06	13.48	14.43	15.38	18.22
15	10.68	11.20	11.73	12.78	14.35	15.40	16.45	19.59
16	11.17	11.75	12.32	13.47	15.20	16.35	17.50	20.95
17	11.64	12.27	12.89	14.14	16.02	17.27	18.53	22.28
18	12.09	12.76	13.44	14.79	16.82	18.17	19.53	23.58
19	12.51	13.24	13.97	15.42	17.60	19.05	20.50	24.86
20	12.92	13.67	14.47	16.02	18.35	19.90	21.45	26.10

TABLE III—PRESENT WORTH OF AN ANNUITY

Compound Interest Valuation Premise (Inwood) 8%

Income annually **decreasing** at rate shown below

Years	—3%	—4%	—5%	—7%	—10%	—12%	—14%	—20%
1	0.93	0.93	0.93	0.93	0.93	0.93	0.93	0.93
2	1.76	1.75	1.74	1.72	1.70	1.68	1.66	1.61
3	2.50	2.48	2.45	2.41	2.33	2.28	2.24	2.09
4	3.17	3.13	3.08	2.99	2.85	2.75	2.66	2.38
5	3.77	3.70	3.62	3.48	3.26	3.11	2.96	2.52
6	4.31	4.20	4.10	3.89	3.57	3.36	3.15	
7	4.78	4.65	4.51	4.22	3.80	3.52	3.24	
8	5.21	5.04	4.86	4.50	3.97	3.61	3.25	
9	5.59	5.38	5.16	4.72	4.07	3.63		
10	5.93	5.67	5.41	4.89	4.11			
11	6.23	5.93	5.63	5.02				
12	6.50	6.15	5.80	5.11				
13	6.73	6.34	5.95	5.17				
14	6.94	6.51	6.07	5.20				
15	7.12	6.64	6.16	5.21				
16	7.28	6.76	6.24					
17	7.42	6.86	6.29					
18	7.54	6.94	6.33					
19	7.65	7.00	6.35					
20	7.74	7.06	6.36					

Income annually **increasing** at rate shown below

Years	+3%	+4%	+5%	+7%	+10%	+12%	+14%	+20%
1	0.93	0.93	0.93	0.93	0.93	0.93	0.93	0.93
2	1.81	1.82	1.83	1.84	1.87	1.89	1.90	1.95
3	2.65	2.68	2.70	2.75	2.82	2.87	2.92	3.07
4	3.45	3.50	3.55	3.64	3.78	3.87	3.96	4.24
5	4.21	4.29	4.36	4.51	4.73	4.88	5.03	5.47
6	4.94	5.04	5.15	5.36	5.68	5.89	6.10	6.73
7	5.63	5.77	5.91	6.19	6.61	6.89	7.17	8.01
8	6.28	6.46	6.64	6.99	7.53	7.88	8.24	9.31
9	6.90	7.12	7.34	7.77	8.43	8.86	9.30	10.61
10	7.49	7.75	8.01	8.53	9.31	9.83	10.35	11.90
11	8.05	8.35	8.65	9.26	10.16	10.77	11.38	13.19
12	8.57	8.92	9.27	9.96	11.00	11.69	12.38	14.46
13	9.07	9.47	9.86	10.64	11.81	12.59	13.37	15.71
14	9.55	9.98	10.42	11.29	12.59	13.46	14.33	16.94
15	9.99	10.47	10.95	11.91	13.35	14.30	15.26	18.14
16	10.42	10.94	11.46	12.51	14.08	15.12	16.17	19.30
17	10.82	11.39	11.95	13.08	14.78	15.91	17.05	20.44
18	11.19	11.81	12.41	13.63	15.46	16.67	17.89	21.54
19	11.55	12.20	12.86	14.16	16.11	17.41	18.71	22.61
20	11.89	12.58	13.28	14.66	16.73	18.11	19.49	23.64

TABLE IV—PRESENT WORTH OF AN ANNUITY

Compound Interest Valuation Premise (Inwood) 10%

Income annually decreasing at rate shown below

Years	—3%	—4%	—5%	—7%	—10%	—12%	—14%	—20%
1	0.91	0.91	0.91	0.91	0.91	0.91	0.91	0.91
2	1.71	1.70	1.69	1.67	1.65	1.64	1.62	1.57
3	2.42	2.39	2.37	2.32	2.25	2.21	2.16	2.02
4	3.04	3.00	2.95	2.86	2.73	2.64	2.56	2.29
5	3.59	3.52	3.45	3.31	3.10	2.97	2.83	2.42
6	4.07	3.97	3.87	3.68	3.39	3.19	3.00	
7	4.49	4.36	4.23	3.98	3.59	3.34	3.08	
8	4.85	4.69	4.53	4.21	3.73	3.41	3.09	
9	5.18	4.98	4.79	4.40	3.82	3.43		
10	5.46	5.23	5.00	4.54	3.86			
11	5.70	5.44	5.18	4.65				
12	5.92	5.62	5.32	4.72				
13	6.10	5.77	5.44	4.77				
14	6.26	5.90	5.53	4.79				
15	6.40	6.00	5.60	4.80				
16	6.52	6.09	5.65					
17	6.62	6.16	5.69					
18	6.71	6.22	5.72					
19	6.79	6.26	5.74					
20	6.85	6.30	5.74					

Income annually increasing at rate shown below

Years	+3%	+4%	+5%	+7%	+10%	+12%	+14%	+20%
1	0.91	0.91	0.91	0.91	0.91	0.91	0.91	0.91
2	1.76	1.77	1.78	1.79	1.82	1.83	1.85	1.90
3	2.56	2.58	2.60	2.65	2.72	2.77	2.81	2.95
4	3.30	3.34	3.39	3.48	3.61	3.70	3.78	4.05
5	4.00	4.07	4.13	4.27	4.48	4.61	4.75	5.16
6	4.65	4.74	4.84	5.03	5.32	5.52	5.71	6.29
7	5.25	5.38	5.51	5.76	6.14	6.40	6.66	7.42
8	5.82	5.98	6.14	6.46	6.94	7.26	7.58	8.54
9	6.34	6.54	6.73	7.12	7.70	8.09	8.48	9.64
10	6.83	7.06	7.29	7.75	8.43	8.89	9.35	10.72
11	7.29	7.55	7.81	8.34	9.13	9.66	10.19	11.77
12	7.71	8.01	8.31	8.91	9.80	10.40	11.00	12.80
13	8.11	8.44	8.78	9.44	10.44	11.11	11.78	13.79
14	8.47	8.84	9.21	9.94	11.05	11.78	12.52	14.73
15	8.81	9.21	9.62	10.42	11.62	12.43	13.23	15.64
16	9.13	9.56	10.00	10.87	12.17	13.04	13.91	16.51
17	9.42	9.89	10.36	11.29	12.68	13.62	14.55	17.34
18	9.69	10.19	10.69	11.68	13.17	14.17	15.16	18.14
19	9.94	10.47	11.00	12.04	13.63	14.68	15.73	18.88
20	10.18	10.73	11.29	12.40	14.06	15.17	16.27	19.60

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Currency Inflation in Germany

Its Effect on Real Estate

By Dr. Alexander Block

SHORTLY after the outbreak of the war, the laws safeguarding the gold standard in Germany were suspended. The Reichsbank was allowed to suspend payment in gold and to substitute discounted treasury bills for commercial bills as cover for its notes.

Although the government had borrowed large sums from the Reichsbank, and the latter notes had increased considerably, the extent of inflation at the end of the war in Germany, was not greater than in several other of the belligerent countries. At the beginning of 1918 the mark was still worth four fifths of its gold value. By the end of the year the mark was worth only one-tenth.

Most Germans did not understand the phenomenon at first. They perceived it as a temporary rise in prices. Naturally it stimulated speculation. Some people calculated upon further fall in the mark, others believed in the improvement of the mark. It actually did rise during the first half of 1920. But finally all hopes were given up as the mark gradually sank into the abyss and became practically worthless.

Apart from the rise of commodity prices, extreme inflation is often associated with a feeling of instability which evokes one of the worst features of human nature—fear. Hence the longing for safety and security. Currency disorder promotes the flight from money towards something more stable and especially more *tangible* than money (*Flucht in die Sachwerte*).

Agricultural Land

The attraction of real estate as investment and as refuge,[1] under these conditions increases considerably. At the same time the burden of real estate indebtedness is decreasing. The benefit to real estate owners derived in the initial stage of inflation has been experienced in many countries. Later, when inflation increases, entrepreneurs hesitate to enter into contracts drawn in money. Long-term creditors find their claims virtually wiped out, and the amount of new capital offered for long term investment on mortgages soon declines.

In Germany, holders of agricultural land at first, so long as proceeds exceeded the cost of production, were in a position rapidly to replenish their stocks of breeding cattle and to install or renew the farm equipment (agricultural machinery, etc.).

In the latter course of inflation however, trade began to adapt itself to the incessant tremendous rise in prices by introducing valuation in gold marks for industrial products, a method unpracticable for agriculture.[2] Thus a great disparity of prices between agricultural and industrial products was brought about (*Kaufkraftschere*) in favor of the latter. By the end of 1922 farmers tried to contract loans with the principal and interest measured in terms of agricultural products. But this method of finance was not successful.

Uncontrolled inflation contains grave dangers for the economic well-being of the country as a whole, and, no doubt, when the process becomes acute, all suffer. Real estate owners are no exception; but perhaps they suffer less. That at least ap-

1. The psychology of extreme inflation favors the movement "back to the land."

2. Mössner. *Des Deutsche Bodenkreditsystem.* Berlin, 1934.

pears to be one of the lessons of German inflation. However, it is very difficult to appraise the extent of the gain or damage. If changes in the numbers of foreclosures are an indication of changes in prosperity of property owners, we must admit, that inflation in Germany was a powerful source of prosperity. The following table shows the statistics of foreclosures of agricultural land in Prussia during 1886-1932:

Annual Average	Amount of land foreclosed (*in hectars*)[3]
1886-1890	86013
1891-1895	80118
1896-1900	54258
1901-1905	39381
1906-1910	24762
1911-1915	19180
1916-1920	7647
1921-1925	2952
1926-1930	63760
1931	130844
1932	117000

Foreclosures during the period of inflation, 1916-1923, decreased rapidly from year to year, and practically disappeared when inflation reached its peak in 1923 as seen by the figures for the foreclosures in Prussia in 1921-24:

1921	3000 hectars
1922	1300 "
1923	290 "
1924	2200 "

URBAN LAND—REVALUATION OF DEBTS

The major part of the following discussion is concerned with the effects of inflation on urban real estate.

It is estimated that creditors in Germany during the course of inflation had sustained an actual loss of some 150 billion marks of which 40 billions were mortgage loans. Diagram printed in the pamphlet by P. Fudicker (*Gebäude-Entschuldungsteuer*) compares the financial position of house owners before the war (1913) and after the stabilization of the mark (1923-1933).[4] The presentation, though indicating the net income of house owners in Prussia, is one-sided, from the point of view of creditors versus real estate owners. Its purpose is to prove that real estate owners have benefited from inflation.

Creditors protested against the repayment of debts in worthless marks. Especially mortgagees refused to accept repayment of mortgage loans in depreciated currency and insisted on legislation prohibiting the repayment at par. However a bill providing that up to 1927 repayment of mortgage loans should be subject to the mortgagees' consent was rejected by the Reichstag in 1923. After stabilization, the struggle for revaluation continued unabated with much eagerness on both sides.

The controversy reached its climax by the end of 1923 when the German Supreme Court (*Reichsgericht*) held that revaluation of mortgages was in accordance with the existing law. In order to avoid contradictory judicial decisions the government included a somewhat hurried provision for revaluation of debts up to 15 per cent in the third Emergency Tax Decree of 1924 (*dritte Steuernotverordnung*). The Revaluation Act (*Aufwertungsgesetz*) of July 16, 1925, provided for revaluation up to 25 per cent of the face value of the debt. This act was amended and supplemented July 9, 1927, in respect to mortgage loans (*Gesetz über die Verzinsung aufgewerteter Hypotheken und ihre Umwandlung in Grundschulden sowie über Vorzugsrenten*).

These acts and subsequent regulations issued under them have created a complex legal situation that has kept German lawyers busy for several years. Their practical result may be briefly summarized as

3. Hectar = 2.4711 acres.

4. The interests of creditors, especially small investors, versus real estate interests are set out in the pamphlet: *Um die Gebäude-Entschuldungsteuer* by P. Fudicker, Berlin, 1934. P. 20. See also George Heyer: *Grundstücksentschuldung und Erneuerung der Althäuser*, Berlin, 1935.

follows: Before the war the indebtedness of real estate (house properties) in German towns averaged 80 per cent of their value. Inflation wiped out the indebtedness. The revaluation brought the figure from zero to 20 per cent.

Revaluation of old debts was one of the two procedures adopted in order to cope with the unprecedented situation created by inflation. It tried to alleviate the heavy losses incurred by long-term creditors, especially mortgagees, but brought about much confusion whereby hardships to debtors were not excluded. The other procedure was intended to capture for the community, part of the benefits accruing to mortgagors, by way of taxation.

REAL ESTATE INFLATION TAX

The building inflation tax (*Hauszinsteurer*) passed after the stabilization of currency in 1924 was originally intended as a transitory measure for a period of not more than two years, to March, 1926, but its connection with public expenditure brought about its subsequent repeated prolongation.

It is of the greatest importance to residence property. Perhaps no other tax was more bitterly resented and vehemently opposed by house owners.[5] Its final version was embodied in the Act of June 1, 1926 (*Gesetz über den Geldentwertungsausgleich bei bebauten Gründstücken*).

The administration of the tax is left to the 17 states (*Länder*). In some of the states the tax is assessed in proportion to the amount of the pre-war rent, in others the amount of the land tax (*Grundsteuer*) is used as a basis of assessment.

The actual tax burden varies from 24 per cent of the pre-war rent up to 53 per cent.

The building inflation tax is levied on improved properties excepting those used for agriculture, forestry, and gardening. About one-fourth of the total yield was levied on properties used for business purposes (*gewerbliche Grundstücke*).

The tax which yields a handsome revenue is, in part, applied to the promotion of house building by granting mortgage loans at easy terms (*Hauszinsteuerhypotheken*), and, in part, to cover the general expenditure of the various German states.

The granting of loans was subject to many regulations issued by the Reich and the various states (Länder). The loan on one dwelling should not exceed RM 3000. But this amount could be increased under certain conditions. In Bavaria the maximum was RM 5000.-, in Saxony even RM 12000.- Preference was given to the building of small dwellings.

The rate of interest charged for these loans was 3 per cent, and the rate of amortization 1 per cent, per annum, during the first ten years, and 2 per cent afterwards. Under certain conditions the rate of interest could, and, in most cases, actually was reduced from 3 to 1 per cent.

Roughly 5.5 billion marks in mortgage loans granted out of the inflation building tax up to 1934 were responsible for the major part of house building after the war. Their special importance for the financing of post-war building is due to the scarcity of capital experienced in Germany at that time, and to the fact that the loans were usually granted on second mortgages.

The total yielded and the amount appropriated stated in million marks to housing is seen from the following figures:[6]

5. A good exposition of the tax from the point of house-owners is to be found in "*Jahrbuch des preussischen Haus-und Grundbesitzes.*" Berlin, 1926. pp. 49-61.

6. Mössner *ibid*, p. 150.

Year	Total yield	Part appropriated to mortgages for the building of houses.
1924-25	560.0 roughly	270.0
1925-26	1257.0	596.1
1926-27	1254.8	729.1
1927-28	1673.7	850.3
1928-29	1682.3	845.3
1929-30	1651.6	825.7
1930-31	1537.7	739.4
1931-32	1314.1	341.8
1932-33	925.1 roughly	70.00
1933-34 (first half)	443.1	

The difference between the two columns represents the amount appropriated towards exchequer expenditure of several states (Länder).

ABOLITION OF THE BUILDING INFLATION TAX

This tax was first reduced under Brünning's Government by 20 per cent after April 1, 1932. Simultaneously the rents payable in respect of dwellings in pre-war houses were reduced by 10 per cent, and the rate of interest payable to mortgagees, on mortgages revalued after the stabilization of the mark, was increased from 4½ to 7 per cent (and soon afterwards reduced from 7 to 6 per cent). The decrease in rents and increase of interest rates absorbed the gain derived to the landlords by this tax rebate. A hard blow to many landlords of pre-war houses was the extraordinary permission granted soon afterwards to tenants to terminate their contracts, if they so desired.

Tenants in general, but especially tenants of business premises, frequently used this one-sided license as a means of pressure to induce landlords to lower rents. Thus a measure intended to help the financially weaker tenants during the economic crisis, was used by the financially stronger tenants to extort from their landlords concessions contrary to the terms of the contracts.

The estimated loss sustained in 1932 by the owners of pre-war houses as a result of the 10 per cent rent reduction together with the loss from the extraordinary license to tenants amounts to 700 million marks.[7]

The second reduction which become operative after April 1, 1935, is far more favorable to the landlords. It was included in the Emergency Decree (*Notverordnung*) of December 8, 1931, passed under Brünning's chancellorship and provides for the abolition of the building inflation tax by installments. The reduction of April 1, 1935, presents the first installment and amounts to 25 per cent. A further reduction by 25 per cent and its final cancellation is due April 1, 1937, and 1940, respectively.

Brünning's decree left open the question: Who shall benefit from the rebate and cancellation of the tax? An extensive discussion on this matter arose in 1934 and in the earlier part of 1935. The mortgagees and the tenants claimed the benefit for themselves. These claims as well as proposals to use the reduction for establishing a sinking fund for building amortization have been disregarded. Hitler's government did not supplement Brünning's decree and conesquently the whole benefit from the tax reduction accrued to the landlords.[8] Thus the fight against the tax which was waged with unabating unanimity by real estate interests ever since its introduction, came to a successful conclusion.

7. Mössner, *Ibid* p. 154

8. These lines were written when the Housing Act of March 30, 1935, surprised the landlords by a provision that the tax reduction during the first two years, 1935 and 1936, is to be invested in a compulsory 4 per cent state loan, the proceeds of which will be applied towards the building of small houses and settlements. According to regulations issued April 18, 1935, owners of properties where the annual tax does not exceed 200 marks are free from the compulsory acquisition of the state loan. Consequently most of the smaller properties will enjoy the tax reduction in cash.

CONCLUSION

The danger of currency based on inconvertible paper money is that it offers the government a temptation in time of difficulty to use the printing press in order to meet public expenditure rather than to resort to the less popular means of increasing taxation. Paper money might be compared with a sliding valve of a vessel, so long as the valve is well in hand and the supply of fluid does not exceed certain limits, it is a means of adjustment of balance and harmony, but as soon as it gets out of control and the supply becomes excessive, it easily leads to confusion and even disaster. It is the quantitive feature that makes the change from controlled to uncontrolled inflation something different in kind, like the change of a safety valve into an instrument of danger.

The drawbacks of inflation are due not to the principle of paper money but to its abuses. The larger these abuses have been in a country in the past, the greater is the abhorrence of inflation, and the more resolute the present stand for gold. But controlled inflation introduced after the outbreak of the world economic crisis of 1931, in Great Britain and the United States seems so far, to be a different nature from post-war inflation, of which Germany presents a classic example. The latter should not, therefore, prejudice new experiments so long as they are properly handled.

Provided it is reasonably stable, a depreciated currency may be a valuable asset as the example of England furnishes ample evidence. England escaped from the worst consequences of the world economic crisis when in 1931 it was forced off gold. Prices measured in gold fell heavily; measured in sterling, they rose slightly, but compared with gold prices, the rise was large, and has done, not harm, but good.

This applies also to the real estate market. Real estate prices measured in gold fell heavily. The paper sterling, however, made this fall unnoticable, saving the real estate business from a big slump. Even if we do not attribute the unprecedented building boom enjoyed particularly by the house building industry in Great Britain during the last two or three years to inflation, we must admit that inflation has not impaired it.

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A Mortgage Analysis

Reviewed By DONALD C. THAYER

IN July, 1935, the Home Title Guaranty Company of Brooklyn, of which Henry J. Davenport is President, published in a substantial volume[1] an analysis of the mortgage experience of the Home Title Insurance Company of Brooklyn, New York.

This analysis is particularly useful in that the lending policy appears to be quite uniform from 1906 for twenty-eight years, and sufficient volume of business was done to indicate pertinent results. From 1906 to 1934, over nineteen thousand loans, aggregating $138,000,000, were made in the metropolitan area of New York. Roughly, one-half of the total was loaned on one and two family dwellings; stores, apartments, garages, theatres, laundries, churches, vacant land, etc. constituted the security for the balance of the total. Thus, diversity as well as volume was obtained, making a more comprehensive study possible. Certain very interesting correlations developed. An example is the fact that only 4.3% of loans of $7,000 or less were foreclosed or in trouble, while 43% of those of $200,000, or over were troublesome, although not all productive of loss.

The study is divided into four principal phases:

1. Rates of interest and amounts of principal paid to mortgage and certificate holders over the 28 year period.
2. Determination of dollar amount of loans which at some time in their history were foreclosed or in trouble.
3. Determination of total losses sustained to date with an estimate of anticipated additional losses to be sustained.
4. Analysis and classification of all mortgages by year in which loan was made, the size of the loan and the type of property securing the loan, to determine the percentage of foreclosed and trouble mortgages in the various divisions of each grouping, as well as the percentages of loss sustained according to the type of property.

1. *A Mortgage Analysis*, by Edgar A. Lodge, Comptroller, Home Title Guaranty Company, New York, July, 1935.

PAYMENTS OF INTEREST AND PRINCIPAL

Between 1906 and 1933 holders of the company's guaranteed mortgages and certificates received the average net guaranteed rate of 5.40%. During the year 1934, mortgage and certificate holders received an average rate of 4.71%. Over the entire time an average rate of 5.36% was paid.

Between 1906 and 1934, owners of property paid off mortgages totaling $47,956,000, or nearly 35% of total mortgages made during the period.

ANALYSIS OF FORECLOSED AND TROUBLE MORTGAGES

Against $138,000,000 of mortgages during 28 years the following table shows the condensed record of foreclosed and trouble mortgages:

	Amount	% of total mortgages made
Mortgages on properties:		
Foreclosed and sold.....	$ 7,612,000	5.4%
Foreclosed and conveyed to mortgagee a/c release of guarantee	892,000	0.6%
Foreclosed and still owned.	2,067,000	1.5%
Under rent assignment....	3,832,000	2.8%
Under foreclosure (in process of foreclosure).....	1,593,000	1.1%
Mortgages with interest 10 months or more past due, not already included under one of the above classifications	967,000	0.9%
	$16,963,000	12.3%

It will be noted that the total of foreclosed and trouble mortgages amounts to 12.3% of the total of all mortgages made during the period under study. These are the trouble mortgages but only a percent-

age of these involved a loss, as shown later in the report.

A comparison of the total of foreclosed and trouble mortgages with that of all mortgages made and showing the amount of mortgages paid off by property owners without loss to the investors is contained in the following schedule.

	Amount	% of total mortgages made
Mortgages paid off at 100%	$ 47,958,000	34.7%
Mortgages on properties in possession of owners, not under foreclosure or assignment of rents and with interest not more 10 months past due	73,134,000	53.0%
Mortgages closed or in trouble	16,963,000	12.3%
	$138,053,000	100.0%

DETERMINATION OF TOTAL LOSSES SUSTAINED TO DATE AND ESTIMATE OF ADDITIONAL LOSSES TO BE SUSTAINED

In those instances where the property had been acquired and sold, the profit or loss involved in the transaction was readily determinable. However, for the purpose of this study it became necessary to determine the probable losses to be sustained on all forclosed and trouble parcels which had not been sold. Quoting Mr. Lodge, "In the case of properties acquired and still owned and those under rent assignment, the additional operating loss to be sustained has been estimated at an amount equal to 50% of the amount sustained to date on each of such properties. On the properties acquired and still owned the eventual sales loss has been estimated as to each type of property at an amount equal to one and one-half times the actual sales loss sustained on properties already sold. On properties under rent assignment, or in process of foreclosure, the sales loss has been estimated on the same percentage basis for each type of property as experienced on properties already sold."

The total actual and estimated losses on foreclosed and trouble properties are set forth in Table 1.

TABLE 1.—LOSSES ON FORECLOSED, RENT ASSIGNMENT, AND OTHER TROUBLE MORTGAGES ACCORDING TO TYPE OF PROPERTY, INCLUDING ALL MORTGAGES ON WHICH GUARANTEES WERE RELEASED.

Type of Improvement	Total amount of loans made	Total all foreclosed and trouble mortgages	Total sales and operating loss including estimated additional loss on all foreclosed and trouble mortgages
One family	$ 44,376,000	$ 2,159,000	$ 263,398
Two family	26,938,000	2,067,000	338,910
Three and four family	8,902,000	811,000	205,183
Five to eight family	3,772,000	412,000	88,992
More than eight family	18,102,000	5,589,000	491,832
Stores without apartments	2,065,000	554,000	127,420
Stores with 1-4 apartments	12,695,000	2,083,000	631,149
Stores with 5-8 apartments	1,561,000	506,000	99,176
Office buildings	565,000	5,000	0
Factories, laundries, and warehouses, including loft buildings	3,119,000	154,000	44,352
Garages and service stations	1,799,000	19,000	608
Churches and schools	1,014,000	6,000	0
Theatres	2,768,000	0	0
Special purpose (clubs, charitable institutions, etc.)	3,452,000	1,123,000	233,584
Vacant land	4,160,000	435,000	43,065
Improved property, where loan is made principally on land value	2,765,000	500,000	185,000
Total—all types	$138,053,000	$16,963,000	$2,752,669

This table when analyzed divulges the following:

1. Total mortgages made of $138,000,000 or losses just under 2% of this total.
2. A period of 28 years, or an annual loss of less than $100,000.
3. Total interest payments during the 28 year period of $46,000,000, or a total loss of less than one-sixteenth of the total amount of interest paid.
4. An average annual amount of outstanding mortgages of $30,663,000, or an annual loss percentage of 1/3 of 1%.
5. An average annual actual interest payment rate of 5.36% or an annual loss rate of less than one-sixteenth of the interest paid.

ANALYSIS AND CLASSIFICATION OF MORTGAGES

One way of classifying the mortgages was by year made. Table 2 is interesting in that it brings forcibly to our attention the difficulty of making good loans during certain periods. It would appear from this table that the higher the construction cost the more the likelihood of trouble.

As previously indicated, the size of the loan has had a marked effect on its desirability. Table 3 shows all loans grouped as to size, and the percentage of each size in good standing.

Table 3 indicates that 95% of the total number and 68% of the total amount of loans made are under $15,000 in size. The average size of loan is $7,047. Fortunately, the particularly unfavorable experience on loans of $200,000 and over is confined to that specific group, which represents only 6% of the total amount of all loans made.

This study went into considerable detail with regard to the experience on the various types of property. As would be expected, considerable variation occurred and it is set forth in Table 4 reproduced from Mr. Lodge's book.

The one family dwelling proved to be a good investment. Office buildings as they are generally known were not accepted as security for loans, as the average office building loan was only $33,000.

The rest of the classifications are self

TABLE 2—DISTRIBUTION OF LOANS BY YEAR MADE.

Year made	Number of loans	Amount of loans	% of amount of paid off and good standing loans to total amount of loans made
1906-13	2,554	$ 9,115,000	95
1914-18	2,361	8,662,000	99
1919-20	1,578	7,642,000	98
1921	678	5,048,000	99
1922	1,479	10,333,000	89
1923	1,358	9,044,000	96
1924	1,496	10,288,000	97
1925	1,734	13,461,000	94
1926	1,489	13,128,000	87
1927	1,472	13,657,000	76
1928	998	10,452,000	63
1929	551	6,038,000	69
1930	955	12,315,000	83
1931	752	8,017,000	92
1932-33	137	853,000	79
Total ...	19,592	$138,053,000	88

TABLE 3.—DISTRIBUTION OF LOANS BY SIZE OF LOAN.

Amount of loan	Number of loans	Amount of loans	Percent of total loans No.	Percent of total loans Amt.	Percent of amount of good standing loan to total amount of loans made
Under $3,000	4,453	$ 9,172,000	23	7	97
$ 3,000 to $ 5,000	5,978	22,275,000	31	16	96
5,000 to 7,000	3,554	20,380,000	18	15	94
7,000 to 10,000	3,225	25,665,000	16	18	89
10,000 to 15,000	1,321	16,027,000	7	12	87
15,000 to 25,000	573	10,106,000	3	7	87
25,000 to 50,000	257	8,271,000	1	6	87
50,000 to 100,000	123	8,123,000	0.6	6	80
100,000 to 200,000	77	9,755,000	0.3	7	78
200,000 and over.....	31	8,279,000	0.1	6	57
Total	19,592	$138,053,000	100	100	88

explanatory. One item of particular interest is the greater loss from improved property where loan is made principally on land value, than that from loans on vacant land.

In conclusion, Mr. Lodge calls attention to the fact that there is a great wealth of mortgage experience which has not been tabulated and correlated and suggests that if properly used this experience would furnish invaluable guides to future lending policies. He further suggests that in addition to the approaches he has made, many others are available involving studies of location, interest rates, nationality, age of property, percentage of loan to appraised value, etc.

All in all, Mr. Lodge has made a very commendable start in the analysis of mortgage difficulties and his example could be well emulated by those with access to the histories of large groups of loans. This would, in time, develop a fund of information which would be very useful to those in charge of the investment of large sums of money in mortgage securities.

TABLE 4.—PERCENTAGE OF LOSSES BY TYPE OF PROPERTY.

Type of improvement	Percent of fcld. and trouble loans to total loans on same type of prop.	Percent of loss to amt. mtges. fcld.	Percent of loss to amt. of all loans on same type of prop.	Percent of loans made to total loans, all types	Percent of fcld. and trouble loans to trouble loans, all types	Percent losses to total losses, all types
One family	4.87	12.2	0.59	32.2	12.73	9.57
Two family	9.68	13.0	1.30	19.6	15.37	12.31
3 and 4 family	9.16	25.3	2.30	6.5	4.78	7.45
5 to 8 family	10.92	21.6	2.36	2.7	2.43	3.23
More than 8 family	30.86	8.8	2.72	13.1	32.95	17.86
Stores without apts.	26.82	23.0	6.17	1.5	3.27	4.63
Store with 1-4 apts.	16.4	30.3	4.97	9.2	12.28	22.93
Stores with 5-8 apts.	32.44	19.6	6.35	1.1	2.98	3.60
Office buildings	0.8	0	0	0.4	0.03	0
Factories, laundries and warehouses including loft buildings	4.93	28.8	1.42	2.2	0.91	1.62
Garages and service stations	1.03	3.2	0.03	1.3	0.11	0.02
Churches and schools	0.50	1.3*	0	0.7	0.04	0
Motion picture theatres	0	0	0	2.0	0	0
Special purpose, (clubs, charitable institutions, etc.)	32.54	20.8	6.77	2.5	6.62	8.49
Vacant land	10.46	9.9	1.04	3.0	2.56	1.56
Improved property, where loan is made principally on land value	18.08	37.0	6.69	2.0	2.94	6.73
Total-all types	12.29	16.4	1.99	100.0	100.00	100.00

*Red figure.

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Leasehold Securities As Investments*

By FREDERICK WOLTMAN

UNHAPPIEST among the investors in real estate mortgage bonds, which were sold until a few years ago as "second only to United States Government bonds in safety," are the bondholders on leaseholds. Real estate financing admittedly can be one of the safest forms of investment. Whatever happens, the land is always there. But in leaseholds, this is not the case. The extent to which real estate can be a highly precarious speculation is tragically brought home to bondholders of leasehold mortgage issues sold by S. W. Straus & Co., while still the oldest and largest of the real estate bond houses.

Bond issues on leaseholds were a post-war development. The owner of the land rents it for a long period (usually 99 years) to a tenant who erects a building with funds obtained by mortgaging his lease. The mortgage may be a first mortgage—but it is not secured by the land. It can be wiped out by a single dispossess proceeding, if the tenant fails to pay rent for the ground. Although a first mortgage in name, it is infinitely more precarious than a second mortgage.

Nothing short of a sudden, if not miraculous, real estate recovery can save the investments of bondholders on leasehold. With few exceptions, the only efforts being made in their behalf consist in trying to scrape up enough cash for rent and taxes to keep the landlord content to string along and to forestall foreclosure: "to maintain the bondholders' position." Without uninterrupted prosperity, leasehold bonds are one of the most dangerous forms of investment.

*Abstract from *The Real Estate and Mortgage Reporter*, June, 1935.

At present they have no market in the downtown mortgage bond brokerage offices or the Real Estate Securities Exchange. Ordinary defaulted Straus first mortgage bonds bring from 25 to 45 cents on the dollar. A few (on theatre buildings) run as low at 8 to 10. Leaseholds, if any are sold at all, stay below 10. Recently 9 cents on the dollar was paid for 80 Broad St. leasehold bonds; 3 cents for 59th and Madison bonds. There is no other market recorded.

How the real estate world itself regards leaseholds is demonstrated by the 52nd and Madison Straus issue, on the 24-story Columbia Broadcasting building. Able to pay taxes and ground rent and still earn a few per cent toward interest on $1,350,000 of outstanding bonds, this building presents one of the few brighter sides of Straus leaseholds. The building is assessed at $1,450,000. Yet a prominent real estate appraisal firm sets its market value at $450,000.

SOCIETY "PUTS OVER" HOTEL PIERRE

It was in February, 1930, that prominent debutantes drove a gold rivet into the completed steel structure of the Hotel Pierre, a projected landmark of affluence. Otto Kahn, Walter P. Chrysler, Charles H. Sabin, Edward F. Hutton and others blessed with wealth and real estate acumen, the Straus customers were reminded in circulars, had seen fit to invest $3,250,000 in this 40-story hotel dreamland. They too were urged to invest in this leasehold issue to the sum of $6,500,000. Some $15,000,000 reputedly was put into the project. And with a fitting and gala ceremony the hotel was opened in October, 1930.

Exactly 18 months later, in March, 1932, the owner filed a voluntary bankruptcy petition, listing free assets at $99,000 and liabilities of $10,132,000. Now, Mr. Roberts notified the bondholders, they would "own the hotel and share in its earnings which in normal times should be considerable." In answer to his emergency appeal, they subscribed $210,000 more "to save the bondholders' investment." The landlord, the Gerry Estate, meanwhile put in $289,000 and graciously reduced the rental from $275,000 to $100,000 yearly (if and as earned for the following three years). The wealthy sponsors, of course, were wiped out.

For their $6,500,000 bonds the agreeing bondholders got $2,600,000 of 25-year debentures as well as stock in the new owning company.

Since then, no interest has been paid, either on the debentures or on the $600,000 of new first mortgage bonds issued to the bondholders who came to the rescue, and to the Gerry Estate. Interest and principal must be paid on the latter before the bondholders receive any return at all on the original investment.

According to the latest financial report, the hotel sustained a $284,000 loss without paying interest even on the first mortgage bonds. Only $2,600 was paid toward the $100,000 ground rental which is optional under the three-year moratorium. It is doubtful if any rent will be paid for the current year. And in June the moratorium expires and the fixed $100,000-a-year rent takes effect.

In the windup of the reorganization the landlord was in complete command, holding a majority stock control of the owning corporation and title to the $1,200,000 of furniture. With hotels of the pretentious scale of the Pierre growing less and less attractive even to well-to-do visitors, there is virtually no hope for the bondholders.

Probably the luckiest in the deal were the non-assessing bondholders who were paid off at 3.316 cents on the dollar for their bonds.

A typical leasehold is 277 Park Ave. Financed by Straus in 1927 this apartment has bonds totaling $3,879,000 outstanding on which no interest has been paid since 1931. Although the building is 90% rented and of good potential value, the bondholders have little prospect of getting anything back on their investment, according to the Pound's Bondholders' Committee. Taxes and land rent are too high. A year's attempt to induce the landlord, the New York Central, to cut the $246,000 rental was unsuccessful. The only hope is a tentative agreement to stall off foreclosure another five years.

Other smaller Straus leaseholds are equally precarious. The 20-story 57th and Madison Avenue issue ($1,013,000 bonds outstanding) was $15,000 short of paying taxes in 1934. The 341 Madison Ave. leasehold ($420,000 outstanding) had a $1,261 deficiency in 1934 after rent and taxes were paid. The 7-11 East 44th St. building ($750,000) is behind on back taxes. None of these are considered worth reorganizing by the committee.

A single Straus leasehold, the Westinghouse Building, a $3,550,000 issue, has continued to bring a return to the bondholders without interruption. It still pays 4% under a modification of the mortgage.

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Real Estate Practice in Japan

By SEIZO SUGIURA

WAY back in my native city of Tokyo, Japan, I heard of the efficiency with which your real estate business here in America is conducted. It was for that purpose that I attended the Convention of the National Association of Real Estate Boards at Atlantic City where I learned very much and where I had the pleasure of meeting many of the distinguished Realtors of America.

Before going any further, I wish to say that the company of which I am Secretary, Nippon Fudosan Kaisha, Ltd. of Tokyo, Japan, is one of the largest real estate companies in Japan.

Beside our Nippon Real Estate Company, a life insurance company, a commercial bank, a savings bank, and two industrial companies are under the control of our organization through Mr. G. Murota who is of an old family and a member of the House of Peers. Mr. H. Maeyama who is the President of our company has the managing authority of all these corporations.

Now, our company has been engaged for more than thirty years in these lines and render many services to the people.

In our real estate company, we have five departments: 1.) mortgage loan department; 2.) management department; 3.) selling and buying department; 4.) appraisal department; 5.) accounting department.

THE MORTGAGE LOAN DEPARTMENT. In Japan the government owns about forty per cent of the stock of the mortgage banks, sometimes a little more—both metropolitan and local. These banks handle a great deal of long term mortgage loans and these mortgages are amortized by regular semi-annual payments. On the other hand, our own company makes short term mortgage loans for one year, generally; but we make it a rule to renew the mortgage if interest payments are met promptly.

The limit of the loan is sixty per cent of the appraised value and the average rate of interest is eight per cent on the principal payable monthly.

We are mostly concerned with urban land and often accept loans on special buildings such as theatres, hospitals, and private schools besides the usual run of small residences.

About fifteen million dollars remains on mortgage now and this sum is increasing year by year. We are making new advances of six million dollars per year at present. As to the sources of our capital we obtain all the funds necessary from our own banks and insurance companies which we control.

MANAGEMENT DEPARTMENT. Most of our Japanese houses have been single family and wood-built. However, large, strong buildings have appeared during the past ten years, especially since the great earthquake of 1923. Most of the large buildings since the earthquake have been built by corporations specially organized for that purpose and managed by such corporation. Since the earthquake there is a new law in force which prohibits the erection of buildings in excess of 108 feet in any part of Japan.

Under the management of the corporation of which I am Secretary we have

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Address delivered at the meeting of the New York Chapter of the American Institute of Real Estate Appraisers at Hotel Montclair on November 12, 1935.

about 14,400,000 square feet of urban land and 500 houses. We collect about $3,000,000 a year in rentals. The average rate of commission is 5 per cent for collecting ground rents and 8 per cent for buildings. I was very much surprised when I was informed that here in the United States managing agents only collect three per cent on rentals. To me this is an astonishing condition for I do not understand how any large real estate office can efficiently manage a large building, collect rents, keep a large bookkeeping staff, and give the time to the great many worries that tenants demand of managing agents for so low a sum as three per cent. I do hope that on my next trip to America I will find that no real estate office will manage property less than at least six per cent.

Nowadays, owners of properties are coming into our offices in increasing numbers requesting us to manage their property for them and our work has become increasingly heavy. In addition, the demand for apartment houses has suddenly increased during the past two and three years and we are now planning to build many modern apartment houses.

SELLING AND BUYING DEPARTMENT. Generally speaking, we work as brokers; but often we buy and sell properties on our own account so that now these operations amount to three million dollars a year. The maximum brokerage commission is five per cent.

Moreover, this department handles subdivisions, development of new residential districts, summer resorts, and hot springs. In this field our business is increasing vastly; thus, our legal system becomes complicated and real estate commonly becomes merchandise.

APPRAISAL DEPARTMENT. Since appraising plays the most important part in our real estate business, we have organized a separate appraisal organization in our office. In valuation work we put great importance upon net income and carefully study economic conditions and neighborhood trends. A large part of the work of this appraisal division is for the purpose of mortgage loans; the other part is for private clients. Our fees for appraising do not exceed three per cent of the value of the property. A small one family house may be appraised for two and one half or three per cent of the value but a tall structure is often appraised for much less. However, it is not unusual to take all jobs at an average of two per cent.

ACCOUNTING DEPARTMENT. I have nothing special to discuss under this heading as the work of bookkeepers and cashiers is very much similar to your own.

As for me, I have come to the United States with much hope. Needless to say, my purpose is to study the general practice of the real estate business.

I am especially interested in:

1. The appraisal of real property, especially of such buildings as theatres, hospitals and schools, together with their suitability as security.
2. Modern apartment houses and their management.
3. The conditions of buildings privately owned or owned by corporations, or cooperatively managed.
4. Methods used to secure mortgage loans in these times of changing economic conditions.
5. Methods of financing real estate.
6. Real estate as a future investment.

In conclusion. As our home proverb says, "To see for one's self is worth all the books."

I am greatly astonished at seeing the present condition of your business. It is much better than I expected and better than what I thought it was when I read about

it back home. I believe I will still absorb many interesting matters connected with real estate in the United States; I will mention some of them which are now in my mind.

The Real Estate Board—its complete organization, its great influence over the public, and its enormous contribution to the people. I am sorry that we have no such board as yours.

I am impressed with the earnestness with which you Realtors practice and study your profession, that is to say you are both business men and scholars. I think the two characters should go together; but, much to my regret, they are not always consistent in our country. On this point of view, I am now collecting some good new books throughout this long journey to enlarge our library.

Another fact comes next. Every Realtor here knows the holiness of his calling and does not forget his pride and responsibility of his business. This metaphysical point is sure to do much for the progress of business.

Next, I have something to say about the tax problem. From the Feudal Age the property owners in Japan have had much authority and special privileges, and they always thought it a pride to pay as much tax as they could. For was it not a proud day when the tenants and those who held under the Feudal Lord could see that their master paid a goodly sum to the reigning Sho-gun? The idea remains up to this time when real estate has become completely a kind of merchandise.

Speaking generally, our real estate tax is actually not so heavy as yours. Our tax is not levied on rental value alone nor on the valuation of the property alone, but upon special standards which are established by the various Tax Commissions that are elected by the people every five years. In other words, the Tax Commissions may consider the land value, the value of the land and building together and the rental value and then establish a standard for the next five years. This system is very elastic. Taking everything into consideration I should say that the standard is based upon rental value. The rate of tax is about five per cent based on that special standard for land, and about ten per cent based on that special standard for building. The fact that the amount levied has no relation with the actual income is similar to your system.

Our most important problem now in Tokyo is the plan of establishing a great exchange for real estate itself, real estate securities, and mortgage bonds, similar to your Stock Exchange. Just before my departure this movement was so furious that I believe it will soon be realized but I have had no reports about further details.

My personal conclusion is that the real estate business is becoming more international day by day, losing its purely national characteristics with the economic development and progress of the world.

I will take this opportunity of hoping that all of you will continue to be our good friends forever; to go ahead hand in hand, mutually exchanging new knowledge, making new mutual friends, and cementing the ties of friendship in many other ways.

We are all children of the same God and as Shakespeare said, "We have the same feelings, sentiments, hopes and aspirations." To understand a man is to see the man; to understand a nation is to see the nation. I hope that at one of your national conventions all you Realtors will come to my native country of Japan.

I firmly believe the time will come in the near future when world-wide Realtors will exist, and they will do a great contribution to mankind.

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Comment and Discussion

Wilson—ON LANDSCAPING

Mr. Edwards in his article on landscaping in the October 1935 issue of the Journal, endeavors to show that the growth of trees and shrubs, when properly landscaped will enhance in value nearly enough to offset depreciation in the buildings on a residential property. There is no doubt that proper landscaping is valuable to residential property and will increase value to some extent. The beauty and attractiveness of landscaping certainly helps considerably in the marketability of the property. During the fifteen years, I have been selling residential properties, I have had many opportunities to observe the value of landscaping.

Mr. Edwards uses a practical illustration in his article by assuming that a $16,000.00 property consisting of a $12,000.00 residence erected on a $4,000.00 lot, 75x140 in size, will require an expenditure of $800.00 in landscaping. He estimates the increased value of trees over a period of ten years will practically offset ten years depreciation on buildings. In my opinion, half of the estimated cost of landscaping would be sufficient properly to landscape this property from an economic standpoint. On this basis the increased value would not offset the depreciation. I do not believe Mr. Edwards proportions will work out on lots of 75x140 and smaller lots. On larger lots where more planting can be done, the proportions will work out more satisfactorily.

In Southern West Virginia, where I live, it has been found that it is not profitable to plant many evergreens. His suggestion that 35% of the cost of landscaping be invested in evergreens is too much for this section. We have found that evergreen trees have a short life. After five or six years such trees require expensive care. Native trees have been found more profitable as they require less care.

Uniformity of landscaping in the neighborhood is essential. Much of the value of proper landscaping on an isolated property is lost if the other properties in the neighborhood are not landscaped.

In addition to the aesthetic value, well planned landscaping does have a value that can be expressed in dollars and cents tho probably not to the extent Mr. Edwards claims, especially on smaller lots, but will help considerably to reduce losses through depreciation.

T. O. J. WILSON, M.A.I.

Bluefield, W. Va., November 29, 1935.

Cutmore—ON LANDSCAPING

THE efficient adaptation of land to human use, as well as its beautification, is defined by the late President Eliot of Harvard, as follows: "Landscape Architecture is primarily a fine art, and as such, its most important function is to create and preserve beauty in the surroundings of human habitations and in the broader natural scenery of the country; but it is also concerned with promoting the comfort, convenience, and health of urban populations."

Landscape gardening, or landscaping, is the end result of this artistic planning. Naturally conditions of environment and culture have much to do with the theory of landscape design, as well as individual expressions and tastes. In the past there has been a tendency for one school of thought to demand very formal styles of gardening, dictated largely by the Romantic period in Europe. The other extreme

was for an entirely natural effect. Modern landscape compositions have the more rational viewpoint which recognizes both natural beauty and man's dominance over nature. The entire aim is to achieve perfect unity of design as in the sister arts of architecture and sculpture.

Obviously, landscape planning falls into many classes. If buildings are a part of the scheme, their importance may be dominating or subordinated. For example, the buildings in a large park may be incidental, but in a small estate the grounds are a setting for the house. The types of problems now within the field of landscape architecture are so varied that it is impossible within this brief comment to view them all. The whole range of outdoor scenic and recreational facilities, from a couple of window boxes to a great national park, are involved. Regardless of size, however, the necessity for developing a logical plan must be emphasized.

The importance of architectural decoration increases as the possibility of successful vegetation decreases. A back yard lacks sunlight and air; a roof garden faces these handicaps, as well as wind and no soil.

Location sometimes mitigates against good landscape gardening. On the other hand, I have seen roof gardens and back yards in congested, dirty sections of populous Manhattan which were perfect examples of the art.

There is definite depreciation, however, in a Spanish villa stuck out in a northern Illinois suburban town. Neither landscaping nor anything else can cure its inherent error of location. It needs a hot climate, sun, tropical atmosphere — a landscape drenched in sunlight and color. It is pathetic in a snowy, bleak, winter scene.

Every Realtor and appraiser should pay close attention to landscape architecture—it may well be a deciding factor in the valuation.

HARRY S. CUTMORE, M.A.I.
Chicago, Illinois, November, 1935.

Prince—ON LANDSCAPING

Mr. Frank M. Edwards, in his article in the October 1935 Journal on the subject of "Landscaping as an Offset to Depreciation," calls to the attention of appraisers an important factor for consideration in estimating the value of residence property. This subject is one that should be of special interest to every appraiser, and Mr. Edwards is to be congratulated on the excellent manner in which he treats it.

It is a well-recognized fact, however, that very few people interested in the purchase of a home are willing to pay a fancy price for shrubbery and landscaping, which in many cases may represent large sums of money in addition to years of planning and painstaking labor on the part of the home owner.

Mr. Edwards very appropriately qualifies his remarks when he outlines in detail certain fundamental factors which the appraiser must analyze carefully before giving consideration to the "value of landscape gardening."

It is true that proper landscaping may add substantial value where the restrictions, quality of homes, and general conditions referred to by Mr. Edwards as "fundamentals" tend to harmonize with the aesthetic temperament of owners or prospective purchasers of the property in question. But the appraiser should be able to distinguish between those basic concepts of cost and value, and such estimate of value imputable to landscaping should represent the opinion of the appraiser, not necessarily as to cost, but as to the degree of appreciation for improvements of this

character on the part of individuals concerned.

Since most landscaping, consisting of planning, grading, and planting, constitutes improvement to the land rather than improvement on the land, it seems proper that the value of all such improvements should be added to the land value at the time the appraisal is made and not used as a separate item to offset physical depreciation to the structure.

An appraiser is, in some instances, justified in anticipating an increase in land value in a given area as a result of a scarcity of building sites offering similar characteristics, or for other sound economic or social reasons. A portion of such expected increase may, after due consideration, be reflected in today's appraised value.

It is my opinion, however, that an appraiser would be treading on dangerous ground in any attempt to offset physical depreciation of the residence with anticipated value of shrubbery. The structure can be insured against damage by fire, but it is not customary to insure shrubbery. Lack of proper care and freezing temperature can result in a complete loss of shrubbery.

In estimating the future expectancy of the physical life of a building for the purpose of determining the annual rate of depreciation, the appraiser is dealing with a number of known factors. From his experience and knowledge of materials and workmanship, he can, with a reasonable degree of accuracy, follow a recognized procedure in this respect.

It is essential that an appraiser analyze all factors involved in estimating the value of an entire property. The item of landscaping should receive careful consideration, and should be given such value as seems applicable at the time the appraisal is made. This value may be more or less than the cost of replacement.

W. H. PRINCE, M.A.I.
Knoxville, Tenn., November 29, 1935.

Bond—ON LANDSCAPING

I AM quite pleased to see, after four or five years of depressed residential values, that once more some one makes the claim that trees and planting are worth their cost, and even takes the stand that such development has enhancing value. Mr. F. M. Edward's article, "Landscaping as an offset to Depreciation" in the October issue of the Journal, covers very well a phase of residential appraisal consideration somewhat discounted during the last five years.

The article covers the tree and shrubbery phase of the planting so well that comments of mine as an appraiser could be nothing but of a complimentary nature as to the thoroughness with which Mr. Edwards has covered his subject. I would like to carry the thought a little bit further, however, and make it applicable to the smaller type properties, such as the $10,000.00 to $20,000.00 homes which I do not think the author had in mind in his article, except for the last few paragraphs. It seems to me that most of the article applies to the expensive suburban properties which have considerable ground.

It has always been my belief that a suburban home which is on the market for sale should have a flower garden and lawn already started. The average home buyer knows little of the fundamental processes of starting either a lawn or garden and is usually somewhat overcome at the question of where to begin. This applies, particularly perhaps, to the people living in the metropolitan areas—to those owners of moderate or small suburban homes who would be unable to afford the services of

an expert landscape architect. Most people who are buying suburban properties do so because they are fond of flowers and trees and, if they are given a start, they can carry on with their own ideas and experiments.

I feel that the builder could plan with the landscape architect as he does with the building architect and thereby enhance the sales value and desirability of the house he is offering for sale with the addition of some flower planting. This item is usually totally ignored. It is my contention that nearly everyone reacts to, and is fascinated by, color at least to some degree. Surely flowers are the answer to that in the outside planting.

Unquestionably, attractive planting adds to the sales value of a property. Most builders realize that a house needs to be tied to the ground with shrubbery and one usually sees clusters of evergreens grouped somewhat forlornly around the entrance doorway. Some even start the lawn, although for the most part in a very cursory fashion, but few devote any time at all to the consideration of flowers. Yet there is nothing much more satisfying to real flower lovers than a series of delightful flower surprises.

The starting of a lawn and the planting of shrubbery of course is done upon the completion of the house, but the establishment of a garden could well be started in the beginning. If a house is to be completed for sale in the spring, work on the garden should be started the previous fall. Depending, of course, on the style and period of the house, the garden could be laid out somewhat tentatively and many perennial seeds could be planted. Perennial seeds, if sown in the fall will usually produce flowers the next season. This can be done for a very moderate cost. Spring bulbs should also be planted to add to the color effect in the early season.

The ground should be properly fertilized before planting. The new home owner will then be able to do any additional planting he may wish, and hope for reasonable results.

The average purchaser of a moderate-priced suburban home does not even think of consulting a landscape architect, but expects the dealer from whom he buys his shrubbery to give him landscaping advice free with the order. A builder could very well add the landscaping architect's costs to his building costs and absorb them in the whole transaction. By doing this he will be able to start the home owner with the best possible planning for the exterior ground development, and the concealed cost handled in this manner would not be burdensome to the ultimate home owner.

By doing this the builder can capitalize on the fact that he has engaged the services of Mr. A. B. So and So as the landscape architect for the entire exterior ground development, which could be a very helpful sales argument in favor of his project.

F. A. BOND, M.A.I.

Philadelphia, Pa., November, 1935.

Bowen—ON LANDSCAPING

I read the article in the October copy of the Journal, written by Mr. Frank M. Edwards on "Landscaping as an Offset to Depreciation," with no little interest, but frankly, it seemed to me, as I read it, that Mr. Edwards was setting forth what ought to be true and yet what was, from the practical standpoint, not actually true.

It would be nice if we could estimate the value of trees and shrubbery in the specific way that Mr. Edwards sets forth, but as appraisers, it seems to me that we face certain problems in reference to landscaping which would include tress, shrubs, and gardens, that are less easy to figure than the schedule as he sets it up. In the

last analysis, we are interested in a value which will represent what the average person interested in the purchase of a given type of real estate considers that he is willing to pay.

Now, as a matter of fact, if we take Mr. Edwards' schedules of prices quoted for stock of unquestioned quality, we find, as in so many matters relating to real estate development, that the cost does not necessarily represent the value. If the average person were willing to pay $125.00 for a ten foot blue spruce, we should see a good many more of them planted than we do. If the average person were willing to pay $100.00 for a six or eight inch caliper elm, we should see a good many more of them planted than we do. As a matter of fact, the average home owner —and by that I mean the man who pays up to $15,000.00 for a single family house —is not willing to pay that price for a tree, at least he is not in Buffalo. In order to prove that, you have only to go into our newer developments, where a man is building on an apparently treeless lot, and see the number of houses that have been built, costing $10,000, $15,000, and even $20,000, with no trees or shrub that will cost more than $10.00 a piece installed. In fact, the attitude of the new home owner, with which Mr. Edwards opened his article, is the attitude of an overwhelming proportion of the buying public in reference to housing.

Now, that does not mean that, from my standpoint, landscaping and proper trees do not have a value. They do. There is no question but what a home owner will pay more for a lot on a street where there are handsome, well-developed trees than he will on a street lacking entirely in that kind of improvement. There is no question but what a house with attractive planting and shrubbery will sell quicker than a house which has none. That is equally true with the builder or owner who has gone beyond that and has developed a properly designed garden as an asset that will facilitate the sale of that piece of real estate.

Again, let us approach this problem from a somewhat different standpoint. On the grounds of my own home, there is the most beautiful con color fir that I have ever had the pleasure of seeing. Standing on a little rise beside a placid stream which mirrors and enhances ofttimes its own perfection, it is truly a thing of beauty, in fact "a pearl without price." I have tried a good many times to estimate the value of that tree to myself in my home and every time that I try to figure it out, I find the value very high. About a mile from my home, there is a group of little houses, adjoining running water, where an acre of ground and the little house complete were sold about two years ago for an average price of about $1,000.00. They were sold to people who wanted their own homes, people who wanted their homes in the country. Their little gardens and the planting they have put around these modest homes show very clearly the love of flowers and the love of real beauty that these people had, but if you were to put that con color fir on the grounds of any one of these houses, it would not increase the value of that property for the type of person who could afford one of those properties by very many dollars. They might like it, but they could not pay for it, and consequently, from the value standpoint, its influence in that type of location would be comparatively slight. Consequently, it seems to me that we are faced with two facts in our approach to landscaping; first, that the tendency of the average individual is to be unwilling to pay for the cost of production of the finer grade specimens of trees, shrubs, and plants; in the second place, it seems to me that the value of such specimens is deter-

mined not so much by their cost of reproduction as by their adaptability to the grade of property which they adorn, and the pocketbook of the prospective owner.

Furthermore, from the standpoint of practical appraising, it seems to me that the appraiser is faced with a very nice problem as to the amount of liability that such planting may be under certain circumstances. Suppose we go into the question of the more elaborate home, and take a property which is beautifully developed with fine specimen trees, beautifully trimmed shrubs of varying design properly blended for the best effect, a lovely formal garden, a beautiful lawn, all kept up in proper condition. The owner dies, and during the period of the settlement of the estate, the house is closed and the property stands idle for even as short a period as eighteen months. The beautiful lawn will have gone to pieces badly, the garden will be a mass of weeds and many of the finer plants will be dead, certain of the strong growing shurbs left to themselves will have started to become leggy and to crowd out certain of their weaker neighbors, the beauty and balance of the picture created by the landscape gardener will have gone. The trees, in that short period, will probably not have been affected, but certainly the depreciation which will have taken place in most factors of beauty built up by the landscape architect will have been tremendous.

If we apply this same thing to a really large estate, we may face a situation where, from the standpoint of the executor, the landscaping will become a liability instead of an asset. He may find that during the period of the settlement of the estate, when cash is at a premium, in order to preserve the value in the beautiful gardens, the shrubbery and the trees, it is necessary to maintain a corps of gardeners at material expense. Consequently, it seems to me that as appraisers, in our approach to landscaping, we must limit the amount which we grant for landscaping to the amount which we believe an ordinary purchaser will pay for the benefit of the trees, shrubs, etc., on the lot in question in addition to what he would pay for a lot similarly located but without those particular things. I believe when we come to that point, that we will find that that value is materially less than the reproduction or cost value in practically all cases where trees and shrubs are mature and of long standing. We will realize that these factors in the value of a piece of real estate are just as perishable and must be discounted just as much as fragile window curtains recommended by an interior decorator for the inside of the residence, or for comparatively expensive machinery that wears out quickly in the kitchen of the property. If the owner actually sits down to evaluate the picture in this landscaping as an offset to depreciation, he will realize that that value is there only so long as he keeps the picture made by the landscape architect complete, and that any let-up in his care and attention will result in rapid depreciation and destruction to value.

On the other hand, with the development of civilization, particularly with the creation of additional leisure time, there should be built up in our people an increasing desire for the type of picture that the landscaping architect can create. The ideal that Mr. Edwards presents is one that should be developed among our people, and the time should come when an even larger number of people would be willing to pay for a properly executed creation in trees, plants, and shrubs on the same basis that they would pay for the creation of a great artist in oils or water colors. If the time comes when a material percentage of our population has developed that

kind of a desire, this outline of Mr. Edwards will become true, but until that time the factors which he portrays will be true only as applied to a comparatively small proportion of our residence properties. It will be true for less than half of your market prospects on even the expensive types of property in essentially urban real estate. When it comes to landed estates, or suburban properties, then the value will begin to approximate the sort of figures that Mr. Edwards has in mind, but even there, I believe, the factor of extreme depreciation will keep the true value as offset for building depreciation below the level that he indicates.

PERCIVAL V. BOWEN, M.A.I.
Buffalo, N. Y., November 19, 1935.

Thompson—ON ENTREPRENEUR'S INCREMENT

ENTREPRENEUR'S increment is the value which all products, the production of which is economically justified, have in excess of all cost of production. In regard to real estate, entrepreneur's increment is that value which a newly completed project has in excess of the cost of land plus cost of building including contractors' profits plus all incidental and carrying costs to bring the property to its projected condition. It is the amount which the "average man" will pay for the enterprise, risk, work, and trouble of bringing about the completed project. Entrepreneur's increment cannot be allocated to either the building or the land; it is allocable to the combination of building and land. However, it is allied with the building more closely than with the land as it is born with the building and dies with the building, while the land endures. If land value is to be determined by a subtraction from total value, the entrepreneur's increment must be subtracted along with the building value.

The presence of entrepreneur's increment in the value of real estate can be shown deductively from the fact that without it there would be no incentive to undertake the risk of construction or development and from the further fact that such risk is undertaken; and empirically, in the case of properties that are sold shortly after completion, by the fact that such properties generally sell for more than the sum of the cost of land and building. A summation appraisal which ignores this element in an economically justified project is in error. The fact that this element is frequently merged with the building cost under a hypothetical "cost" item of "promoter's profit," "financing fee" or the like does not alter the principle.

If the entrepreneur's increment in a particular property diverges from that established by the general market or capitalized values of competitive sites (corrected for dissimilarities), the divergence is perishable. If it is in excess of "normal," competitive buildings probably will be erected on competitive sites which will destroy the divergence. It probably will disappear long before the building does and the excessive entrepreneur's increment in income should take a higher capitalization rate and shorter life than the rest of the property.

R. E. THOMPSON, M. A. I.
Jersey City, New Jersey, Aug. 26, 1935.

Goldfarb—ON ENTREPRENEUR'S INCREMENT

I READ with much interest the scholarly contribution to the advancement of appraisal thought in the article by Mr. Thompson on Entrepreneur's Increment. At first reading I was inclined to feel that the fundamental processes of appraising as now practiced were about to meet with

a radical change. My thought has always been that with very few exceptions the highest value that a property could obtain was the summation value—that is, the cost of the land as if vacant, plus the cost of the construction of the building, as if new. This principle has but few exceptions such as where a piece of property might enjoy a monopoly. My impression has always been that any increment in value is credited to the land; building value is circumscribed by its cost of reproduction.

As a matter of practical appraising the entrepreneur's increment, in my humble judgment, does not exist. A builder or developer of single family houses derives his profits from the building operation, or the sale of the land, or the brokerage, or a combination of these elements. When the cost of a property is measured by an appraiser he considers the retail cost to the purchaser, not the cost to the operator. In the case of large wholesale operations along one family house units a greater profit may inure to the developer because of his wholesale activity. This saving might be carried on to the purchaser. But even here other elements, such as lack of individuality, etc., create sales resistance which the appraiser recognizes; a successful one family development will tend to raise land values in a new section. Thus the developer might profit from his own efforts on his subsequent endeavors. Such rise in land value is recognized by the appraiser and is not segregated as the entrepreneur's increment.

For income property the so-called entrepreneur's increment might exist for a very short time in a new successful venture, say an office building, but, as Mr. Thompson indicates, this extra value created above and beyond the summation value will soon disappear. Due to the natural economic laws of supply and demand competition will soon tend to over-take such increment. This has been designated in the appraisal profession as Surplus Profit, that is, earnings from a particular property beyond the usual and reasonable earnings of like property in the same or similar neighborhoods. An appraiser recognizes such a situation by increasing his capitalization rate thus tending towards equilibrium between capitalization value and summation value because he knows that this momentary success of the enterprise will soon be dissipated.

Or again, this surplus profit might exist because of an old lease made during more prosperous times where the tenant is bound because of his written contract. Such surplus profit can by no stretch of the imagination be called entrepreneur's increment although it is chargeable to the property and tends to enhance the value of the land beyond its normal value. Such surplus profit must be treated by the appraiser very cautiously at a capitalization rate high enough consistent with the great risk involved.

Income properties located in an area with an upward trend often have what the appraiser calls the unearned increment or speculative value, that is, that increment of value which inures to the land (not to the building) because of the growth of the section along a steady stable path. Such a condition the appraiser reflects also in his capitalization rate. A steady, not too rapidly growing (not mushroom or boom variety) commercial area will take a lower capitalization rate due to this potential unearned increment.

What then are the incentives of the entrepreneur, if not the increment of value! They are, in my opinion, as follows:

1. In the case of the dwelling—building profits, profit from sale of lots in subdivision, some form of brokerage profits, etc. Developer's land profits are chargeable to his operation as a sub-divider. An appraiser always figures cost of a building at retail costs to the aver-

age prudent purchaser, not costs to the builder. I know a sub-divider who considers very materially his profits from his brokerage department, that is, his exclusive right to sell the houses on his tract.

2. In the case of income property—the chief incentive is the income, that is the stability of the investment plus the potential unearned increment which is the chance for extra gain, an increase in his capital due to the rise in land value. This unearned increment must be measured by the appraiser very judiciously, because taken over a long period of time, depression periods as well as boom periods, this element of value exists less often than we sometimes think.

Pertaining to real estate, at least, entrepreneur's increment, if it exists, is only an academic proposition, and offers no element of additional value not already accounted for in the appraisal practice.

MORRIS GOLDFARB, M.A.I.
Perth Amboy, New Jersey.
November 25, 1935.

NOTE: *See also in this issue "The Appraisal Process" for a somewhat different explanation and treatment of this "increment."*—ED.

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"Earnings from a particular property beyond the usual and reasonable earnings of like property in the same or similar neighborhoods are designated in the appraisal profession as Surplus Profit."

"It is essential that an appraiser analyze all factors involved in estimating the value of an entire property. The item of landscaping should receive careful consideration, and should be given such value as seems applicable at the time the appraisal is made. This value may be more or less than the cost of replacement."

Co-operative Realty Education

By W. H. SPENCER

THERE are certain very definite principles upon which we at the University of Chicago have proceeded in setting up and conducting co-operative educational efforts.

In the first place, we proceed on the assumption that in the field of education there are definite limits beyond which the educational institution should not go in preparation of persons for specific tasks. We believe, for instance, that the university, organized as it is, with its professional instructor, laboratory facilities, and libraries, should for the most part confine its activities to the fields of general education and the fundamentals of professional business education. If we are right in this, it follows that each industry or individual business must carry the primary responsibility for adapting men to its specific needs. But we believe that the university and the industry can profitably cooperate to some extent in the field between these two extremes. In terms of our own experience, this, we are convinced, is the appropriate field for cooperative education.

PROFESSIONAL BASIS

In the second place, we proceed on the assumption that the training in question must be on a professional basis. We have no interest in a program of mere trade education. I do not mean to imply that in the past we may not have engaged in some activities which would have to be classified as trade education. And, of course, I have to admit that the dividing line between true professional education and mere trade education is a shadowy one and not yet easy to draw. We believe, however, that there is a difference between these two things. We are interested in the former.

In the third place, we at the University of Chicago believe that there is an intimate, if not indispensable relationship between research and professional training. We have, therefore, in all of our cooperative relationships advised, if not insisted, that research occupy an important place in the plan of co-operation.

In the fourth place, we have proceeded on the assumption that the industry or business should finance the direct costs of such co-operative educational activities. We have not felt that the university's general income should or could be used in carrying on activities for the benefit of a single business or industry. We have not, however, charged against the business or industry overhead costs for the use of buildings or library facilities. From the point of view of a busines or industry, there are, of course, in a cooperative arrangement with a university certain intangible values which cannot be estimated in dollars and cents.

Finally, we have always proceeded on the assumption that the educational policies involved in these cooperative plans shall be subject to veto by the University. You realize, I am sure, that a university can never surrender its control over its educational policies to any outside agency or organization. In the past, to assure its control over educational policies, the University has usually set up a joint council or committee, composed of representatives of the University and the business or industry, on which it has a majority representation. I may say in passing that such

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An address delivered before the Convention of the National Association of Real Estate Boards in Atlantic City, New Jersey, on October 24, 1935.

a committee has in no case vetoed any phase of proposed educational plans.

IN OTHER FIELDS

During the past fifteen years the school has participated in some eight or ten co-operative plans. They have ranged in type from very informal arrangements, like the one we now have with the Industrial Relations Association of Chicago, to the more formal arrangement which we have with the Institute of American Meat Packers. At the present we have an almost equally formal relationship with the American Hospital Association in the field of hospital organization and administration.

Although the report of the Education and Research Committee of the American Institute of Real Estate Appraisers contains an excellent statistical statement concerning the course in Real Estate Appraisal conducted last summer at the University of Chicago, I wish to make some comments upon the course. I shall do this for two reasons. In the first place, it represents a more informal type of co-operation than that represented by the Institute of Meat Packing. In the second place, I wish to comment on it particularly because, in my opinion, your committee, out of a sense of modesty for its accomplishment, has not told the whole story.

APPRAISAL SUMMER COURSE

The course, as the report of your committee indicates, covered a period of four weeks, divided into two terms of two weeks each. It was conducted under the joint auspices of the American Institute of Real Estate Appraisers of the National Association of Real Estate Boards and of the University of Chicago. It was housed in one of the residence halls of the University. The course was designed to furnish students with practical instruction and field work in the appraisal of residential and business properties. The instructional materials were prepared and presented by practical appraisal men. It attracted about 130 students from all parts of the country. The course did not confer credit, and the students were not technically enrolled in the University. The work, however, was carried on in a university atmosphere.

There are the bare facts concerning this course. They do not, however, tell the whole story. Let me see what I can do in the completion of the story.

In the first place, the plans for this course were laid with a degree of intelligence and vision seldom encountered in such a project. Those responsible for these plans cannot be given too much credit.

In the second place, the instructional materials, all prepared in advance of the opening of the course, are a model of thoroughness and conciseness. I have seen university professors, supposedly experts in such matters, work longer and come out with less.

In the third place, the school itself was conducted with a remarkable degree of preciseness and purposefulness. There was no lost motion, no waste of time, no standing around deciding what should be done next. The unit of instruction was conducted with the precision of a well-trained company of soldiers.

But the thing which impressed me most about the experiment was the spirit of the participants, particularly the spirit of those who came in as students. Students, you know, are inclined generally to be blasé and not particularly enthusiastic about what they are doing. Believe it or not, but these students seemed to enjoy their work; they were proud of the fact that the instructors drove them hard; they took especial delight in the severity of the disciplines through which they were driven.

To cap the climax, at the conclusion of the course, the students lined the faculty up in one end of the room; I shuddered as I thought of what might be coming; I momentarily expected a firing squad; instead, the students presented each member of the faculty with a present.

Truly the course in Real Estate Appraisal conducted last summer at the University of Chicago was a marked success. You are entitled to take great pride in the performance of those who planned the course and participated in it.

As I pointed out earlier, the University must always be primarily concerned with general education; and business must always carry the responsibility of adapting men to its own peculiar needs. However, between these two extremes in educational functions there is an undefined area in which they can profitably co-operate. The possibilities of development in this, at present undefined, area have scarcely been touched.

Business, particularly during the depression, has been indicted both by professors and professional reformers on the ground that it has bred most of its present troubles by closing its eyes to its abuses and by refusing to do anything about the mess in its Augean stables. Business men have replied that the professor doesn't now what he is talking about and that he embarrasses business by talking too much and doing little.

Now, there is a measure of truth in each of these two accusations. The business man, actively engaged in the hurly-burly of the world affairs, cannot always discern the distress signals. The academic man, because of his relative detachment and disinterestedness, is in a better position to discern them. At the same time, because of his detachment, his remedies and solutions may have limitations of which only the practical mind has any awareness.

We have here the problem of utilizing both the academic mind and the practical mind in the solution of our social and economical programs. They should not be working at cross-purposes. They should be teamed. One way of co-ordinating them in a common cause is in the development and extension of those areas in which cooperative training and research can appropriately be conducted.

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International Federation of Surveyors

Historical Note[1]

First Stage—Paris Congress, 1878

The proposal to form an international federation of surveyors emanated in 1878 from the Central Committee of French Surveyors,[2] whose President at that time was M. Lefevre de Sucy. Advantage was taken of the Paris International Exhibition to convene the first congress of surveyors which, by the authority of the French Minister of Agriculture and Commerce given in a Decree dated July 1st, 1878, met in the Trocadero Palace from July 18th to 28th, 1878. Surveyors from the following countries attended: Belgium, France, Germany, Great Britain,[3] Italy, Spain and Switzerland. France headed the attendance roll with a strong delegation of 426.

The Congress met under the joint presidency of M. Feray, a French senator, and M. Lefevre de Sucy. Each delegation was asked to nominate a vice-president, while M. Pottier of Villers-Cotterets and M. Derivry, of Noyon, were elected first Secretary-General and first Treasurer respectively.

Among other subjects, views were exchanged at this first Congress on the organization and status of the profession in the various countries; the professional diplomas awarded therein; cadastral survey and the desirability of setting up a permanent international committee of surveyors.

To this Congress the Federation owes the harmonious relationship which has existed ever since between surveyors in Europe, for it was at this gathering that the first international permanent committee, charged with the task of forming an international federation of surveyors, was constituted.

The Proceedings of the first Congress are on record in a volume which has the distinction of having been printed in 1879 on the National Printing Press of France.

In 1879 and 1880 considerable correspondence on the organization of the proposed federation passed between members of the International Committee, whose seat was at No. 1, Rue Lepelletier, Paris, where they met on July 21st and 22nd, 1879. A report of these meetings and a great deal of the correspondence were reproduced at the time in the *Journal des Géomètres de France*, then under the direction of that distinguished surveyor and able administrator, M. Derivry.

Belgium, France, Germany, Great Britain and Switzerland attended the meetings, while Italy and Spain sent apologies for absence. The principal subject under discussion was the organization of the proposed federation and Standing Orders were drafted which appeared in the same *Journal* in May, 1880.

Owing to the indisposition of the Chairman the 1880 meeting was cancelled. The Congress in Rome, which had been proposed for 1881, also failed to materialize, and thus ended the first attempt to group together surveyors beyond their own frontiers.

The aims of those early pioneers are worthy of record. They were:—

A. to form an international body of qualified surveyors;
B. to regulate the conditions governing the attainment of surveying qualifications;
C. to draft proposals for the best possible cadastral survey and for the preparation of better topographical and geological maps.

Second Stage—The Brussels Congress, 1910

The initiative for the next attempt to form an international federation of surveyors was taken by the Union des Géomètres-Experts de Bruxelles, who took advantage of an annual gathering of Belgian surveyors to convene and organize a highly successful International Congress in Brussels in 1910. The steps taken on this occasion were effective and lasting, largely due to the wisdom and tact of M. Ernest Lacroix of Ixelles, who had played an influential part in the Paris Congress of 1878.

The Brussels Congress was attended by surveyors from Austria, Belgium, Denmark, France, Germany, Great Britain, Holland, Hungary, Italy and Russia; and by representatives from the Governments of Denmark, France, Japan, Mexico, Norway, Persia, Sweden, and Turkey. The presence of the latter gave an official character to the Congress which has been a feature in all subsequent reunions.

The technical work of the Congress was divided into four sections, of which three dealt with the national aspect of measuring, surveying, and administration, while the fourth concerned itself with international problems. Arising from the work of this section and on the recommendation of the Union des Géomètres-Experts Français a provisional international committee was set up under the chairmanship of M. Frank "to collect and collate Papers on the profession of surveyor

1. Extracted from a Paper by M. René Danger of Paris, Vice-Président d'honneur of the Federation.
2. This Society was founded in Paris on January 22nd, 1847. It has existed as an active body ever since, changing its title in 1921 to the "Union des Géomètres-Experts Français." It is the only surveying body in France with controlling authority over the French regional societies.
3. The Society of Great Britain is now "The Chartered Surveyors' Institution," and its head-quarters are at 12, Great George Street, Westminster, London, S.W.1. The Institution was founded in 1868, was incorporated by Royal Charter in 1881, and was granted a supplemental Charter in 1921, in which year His Majesty King George V accepted the office of Patron. In 1935 the Institution numbered 8,500 members, practicing in the British Isles and in territories overseas. The Council of the Institution organized the Fifth Congress of the International Federation of Surveyors, held in London in July, 1934.

and its standing in the countries represented at the Brussels Congress of 1910." These Papers were annexed to the minutes of the Congress meetings and were published in 1911.

In the years following 1910 the surveyors who had met in Brussels entered into extensive correspondence on the organization of the federation, and, of this, the most interesting today is a set of Standing Orders drafted by M. René Danger of Paris, which formed the basis of the Rules finally adopted in London on July 21st, 1934, and are reprinted at the end of this pamphlet.

On the resumption of normal intercourse after the Great War of 1914-1918 an exchange of technical "Journals" was effected by the *Journal des Géomètres-Experts Français* with societies of surveyors in Europe, Canada and South Africa. This procedure was useful in stimulating a further exchange of opinion on M. Danger's draft Rules. In this period, too, numerous meetings were held in Brussels, Geneva, Lausanne, London, Paris, Turin and Zürich of surveyors from Belgium, Czechoslovakia, France, Great Britain, Holland, Italy, Sweden and Switzerland. The most notable of these meetings was that held in Paris on January 27th, 1926, when, to quote from the minutes, "the foreign delegates . . . assured the French Committee that their countries acceded gladly to the idea of setting up an international federation of surveyors and to the holding of a Congress in Paris in the near future." This historic meeting has been described as the birthday of the Federation.

M. René Danger's draft Standing Orders were adopted after slight amendment as the Provisional Standing Orders of the new federation.

THIRD STAGE—PARIS CONGRESS, 1926

The third, and federated, phase of the international relationship between surveyors is still continuing. The International Committee's decisions of January 27th, 1926, were confirmed in October, 1926, by the delegates attending the second Congress of surveyors to be held in Paris.

At this Congress twenty-three nations were represented, of which sixteen sent Government delegations. The official character of the Congress was enhanced by the facts that the French Ministry of Foreign Affairs sent out the invitations; the International Institute of Intellectual Co-operation and the National Library were offered as venues for the exhibition of surveying instruments, for meetings and functions; and the banquet was presided over by the Minister of Agriculture.

An admirable report of the Congress was published in the following year.

The four technical committees dealt respectively with standardization of symbols used for calculating map co-ordinates and the standardization of conventional signs on maps generally; surveying instruments and methods; the status and training of the surveyor; and the surveyor and landed property.

The first officers of the Federation formed the nucleus of the first Permanent Committee of the Federation and were charged with the management of the Federation's affairs in the interval between Congresses. There has been an annual Permanent Committee meeting in a selected capital city ever since, and at the first, in Paris on December 16th, 1926, M. René Danger was elected Vice-Président d'honneur of the Federation in recognition of the outstanding part played by him in the creation of the Federation. At the 1927 meeting, also in Paris, the Federation membership of the leading society of surveyors in the following countries was confirmed, namely: Belgium, Czechoslovakia, France, Great Britain, Holland, Jugoslavia, Latvia, Spain, and Switzerland. At the 1928 meeting, held in Brussels, Denmark and Poland were admitted to membership, to be followed in 1929 by Sweden.

In 1930 *the Fourth International Congress of Surveyors* was held in Zürich, thirty-two nations being represented by official and professional delegations. This reunion was magnificently organized by the surveyors of Switzerland. The beautiful premises of the Technical University of Zürich were lent as a head-quarters. The Congress was inaugurated by the Swiss Minister of Education, and lavish hospitality was offered by public and private bodies in Switzerland.

The technical side of the Congress found expression in lectures, meetings, and an exceptionally fine exhibition of maps and instruments. The technical subjects studied in Paris in 1926 were carried a stage further and, in addition, committees were set up (six main committees and five subcommittees) to examine questions of re-grouping landed property holdings and town planning.

Italy and Roumania were admitted to membership and the Proceedings of the Congress were published for the first time in English, French, and German.

In 1931 the Permanent Committee set up a Standing Cadastral Committee under the chairmanship of Dr. Louis Hegg, of Lausanne, with M. René Danger as Rapporteur.

On August 21st, 1932, the Federation suffered a severe loss in the death of its able and popular Secretary-General, Herr Allenspach. In September of that year the Permanent Committee met at Warsaw, where M. Maurice Delessert, of Geneva, was elected Secretary-General; amendments to the Standing Orders were discussed and the need for a technical dictionary of surveying terms was stressed by Colonel H. C. Cole, C.B.E., F.S.I., an English vice-president, culminating in the setting up of a Standing Dictionary Committee.

At the 1933 meeting, held in Rome, a revised set of Standing Orders was drafted.

From July 18th to 21st, 1934, *the Fifth Internatonal Congress of Surveyors* was held at the Chartered Surveyors' Institution, London, with the approval of His Britannic Majesty's Government. Twenty nations and eight British Dominions and Colonies were officially and/or professionally represented in an attendance which, including guests, approached the high figure of 2,000.

Telegrams of welcome were received from King George V and the acting Prime Minister of England. Hospitality was dispensed by the British Government and by the Lord Mayor and Corporation of London. The Congress was inaugurated by the Minister of Health and the Chairman of the London County Council. H.R.H. the Duke of Kent, the Secretary of State for Foreign Affairs, Ambassadors, and men distinguished in contemporary life attended the Reception in the historic Guildhall, London, at which the head of each delegation was presented to the Duke of Kent.

The technical policy initiated in Paris in 1926 and confirmed at Zürich in 1930 was advanced in London, where two of the six technical committees examined for the first time the subjects of quantity surveying and the "Junior Surveyors' Movement." A small exhibition of Cadastral Maps and Land Records was also staged.

The Congress, meeting in General Assembly, appoved the Standing Orders which are published in this pamphlet, and recommended *inter alia* the setting up of a Standing Committee of Quantity Surveyors; the formation of Junior Organizations in the existing Associations affiliated to the Federation; the necessity for cheap, rapid, and accurate surveys as a basis for national development; the desirability of a sound general education as a prelude to thorough professional training; the creation of a Study Center of Cadastral Information with the object of collecting and comparing Cadastral Surveys and Records extant and of publishing the result of its research; and finally the wisdom of employing qualified surveyors invariably to advise on housing and town planning schemes. Other subjects were deferred for consideration to the 1938 Congress, and in the interval the following officers were appointed:—

Colonel H. C. Cole, C.B.E., F.S.I., of London—President.

Signor E. Fanti, of Bologna; Sir Charles Gott, M.Inst.C.E., F.S.I., of London; Colonel L. Surmacki, of Warsaw—Vice-Presidents.

Major A. H. Killick, D.S.O., M.C., of London—Secretary-General and Treasurer.

A comprehensive report of the London Congress, handsomely bound, liberally illustrated and including the full text of a high proportion of the sixty-two technical papers submitted to the Congress by surveyors from many nations—papers which were printed in English, French, and German and were issued to delegates prior to the Congress—was published in French and English in 1935.

The profession of surveyor is a wide one, and the existence of a federation organized to facilitate an interchange of methods, ideas, and technical literature has proved its worth. There can be no better way of fulfilling this function than by the appointment of an alert secretariat and by personal contact between surveyors at regular congress intervals.

The influence of the International Federation of Surveyors is steadily extending. It already possesses the nucleus of an International Library; it hopes to secure access in the near future to some 30,000 translated terms used in surveying as a foundation for a technical dictionary; its membership is such that an authoritative answer to any professional query can be obtained gratis and at short notice; it is steadily collecting in Paris and London data on the existing systems of cadastral survey and it can claim to be assisting the vital cause of international goodwill.

It is hoped that the leading organizations of surveyors in those countries which are not yet affiliated to the Federation will decide to apply for membership in the near future. New members can be assured of a cordial welcome.

August 10th, 1935.

STANDING ORDERS[4]

I. OBJECTS OF THE FEDERATION

The objects of the Federation are:

A. To affiliate the recognized surveyors' associations of all nations with the object of interchanging views on matters of professional interest.

B. To promote relationship between the affiliated associations.

C. To publish information on the social conditions prevailing amongst professional surveyors in each country, so that the latter may take advantage of improvements notified.

D. To encourage, subsidize and disseminate the results of professional research.

E. To co-ordinate professional training in accordance with modern conditions.

F. To foster relations with the competent Authorities and to facilitate exchanges of surveying personnel.

II. PROGRAM

The Federation shall carry out the above-mentioned objects by providing:

A. International congresses to which all surveyors shall be invited.

B. Meetings of committees set up to study one or more special questions of a professional nature.

4. Adapted from the official French Text as revised and approved by the General Assembly of the Federation in London, Wednesday, 18th July, 1934.

C. Annual meetings of representatives of the affiliated associations.

D. Lectures, exhibitions and experiments to demonstrate new methods and instruments.

E. An annual report recording the proceedings of meetings held and the administrative, technical and professional work of the Federation.

F. Circulation or interchange among members of professional literature.

NOTES: 1. *The Federation shall abstain from dealing with questions of a political or religious nature and from intervening in racial disputes.*

2. *The affiliated associations shall exercise their own discretion in appointing representatives.*

III. CONDITIONS GOVERNING MEMBERSHIP

The following are entitled to become members of the Federation:

1. A. National associations of professional men whose main occupation falls within the following definition of a surveyor, namely:

One who identifies, determines the boundaries of, measures, and values public or private landed property, whether urban or rural and whether on the surface or below, and who is entrusted with the management of such property, arranges for its registration, and settles questions of ownership connected therewith.

The surveyor also studies plans and is responsible for land development and town and country planning.

He deals with the technical, legal, agricultural, and economic aspects of the above-mentioned subjects.

B. Those who have been elected to honorary membership in return for services rendered to the Federation or to the profession.

Note: Honorary members are elected by the General Assembly; a majority of at least four-fifths of the members present and voting being required.

2. Each affiliated association shall constitute an independent group and shall be bound to the Federation solely by the members belonging to such association.

3. Professional associations shall be admitted to membership of the Federation upon decisions taken by the Permanent Committee at its annual meeting after nomination by the Central Committee.

No new group belonging to a member-country shall be nominated until the affiliated national association has given its approval.

4. Membership shall cease upon resignation. Any affiliated association which prejudices the interests of the Federation or contravenes its aims and objects can be excluded from membership by a two-third's majority vote of the General Assembly. Members who resign shall have no further rights on the property of the Federation.

IV. ORGANIZATION OF THE FEDERATION

1. The constituted authorities of the Federation are:

The General Assembly,
The Permanent Committee,
The Central Committee,
The Honorary Auditors,
The International Congresses.

2. *The General Assembly*—

A. The Ordinary General Assembly shall meet on the eve of the opening of an International Congress, and shall be presided over by the President of the Federation.

B. The General Assembly shall approve the President's report of office, the financial statement and the budget. It shall appoint the officers of the Permanent Committee; that is, the incoming President, Secretary-General, and Treasurer (viz. the Central Committee), two Vice-Presidents belonging to different nations, and the personnel of the standing committees.

C. The General Assembly shall take decisions upon the proposals submitted by the Permanent Committee or the national associations.

D. In General Assembly, each affiliated association shall exercise one vote only.

E. Each affiliated association may exercise its vote by proxy.

F. In General Assembly those who are present and do not belong to affiliated associations may express opinions but not vote.

G. When the opposing votes recorded in a ballot are numerically equal, the President shall exercise the casting vote.

H. Resolutions adopted at any General Assembly which has been properly convened shall be considered valid, irrespective of the number of members present or represented at the meeting.

3. *The Permanent Committee.*

A. The Permanent Committee shall be composed of representatives of the affiliated associations.

B. The President or, in his absence, one of the Vice-Presidents, shall take the Chair. Meetings shall ordinarily be held once a year at a place selected by a majority

vote of the affiliated associations represented at the meeting. In any case, the Permanent Committee shall meet before each Congress.

C. An Advisory Committee shall be attached to the Permanent Committee. This Committee shall attend the meetings of the Permanent Committee and shall be composed of the Honorary President, the Honorary Vice-President and the Immediate Past-President.

D. The affiliated associations are entitled to appoint one representative on the Permanent Committee per 100 members, with a minimum of two and a maximum of five representatives.

E. Before the meetings begin representatives will submit their credentials duly signed by those from whom they hold their authority.

F. Each affiliated association shall exercise one vote only, irrespective of the number of its representatives.

G. When the votes recorded at a ballot are equal, the President shall have the casting vote.

H. At the request of one-third of the representatives, the Permanent Committee shall convene an Extraordinary General Assembly.

4. The competency of the Permanent Committee shall cover:

A. Proposals of the General Assembly relating to new membership, resignations and expulsions.

B. Proposals to the General Assembly regarding the election of officers from whom is formed the Central Committee (*vide* IV, 2. b and IV. 5).

C. Nominations of honorary members.

D. The appointment of honorary auditors.

E. Examination of questions to be studied by the standing committees or by the Central Committee. The preparation of the agenda for the General Assembly and the selection of a place and date for the next Congress. Instructions as to the program of work to be carried out by the Central Committee in the inter-congress interval.

F. Adoption of the budget drawn up by the Central Committee.

G. Appointment of the members of the committees dealing with professional, technical or scientific questions during the Congress Sessions.

H. Immediately after each Congress the necessary action to give effect to the congress recommendations and resolutions and the settlement of the accounts.

I. Recommendations to the General Assembly for the amendment of Standing Orders.

5. *The Central Committee.*—The Central Committee shall be composed of the President, the Secretary-General and the Treasurer.

The General Assembly shall appoint the members of the Central Committee on the recommendation of the Permanent Committee pursuant to nominations made by the affiliated association organizing the impending Congress.

6. *The duties of the Central Committee.*—

A. The Central Committee shall administer the finances of the Federation in accordance with the budget adopted by the Permanent Committee.

B. It shall insure *liaison* between the affiliated associations by transmitting to them the resolutions, publications, motions, etc., of the Federation.

C. It shall co-ordinate the work entrusted to the standing committees.

D. It shall forward to the affiliated associations of those countries in which such organizations exist literature, recommendations, resolutions, and petitions which are to be submitted to the respective Governments.

E. It shall appoint a drafting committee for the annual report of the Federation.

F. It shall undertake the preparatory work for the meetings of the Permanent Committee and it shall prepare their agenda.

G. It shall co-operate with the affiliated association of the country entrusted with the organization of an International Congress, and together these two bodies shall draw up the program.

Note: The Central Committee normally meets at least twice a year and, as a rule, in the country in which the officers are domiciled.

7. *The Permanent Secretary.*—

A. In order to secure continuity of work the appointment of the Secretary-General can become a permanency.

B. The Permanent Secretary shall be a professional surveyor having a sound technical training and sufficient practical experience to understand the requirements and the aims of the profession.

C. He must know at least two of the principal languages and should, as a rule, be domiciled in the same place as the President.

E. The appointment shall be a salaried one. The remuneration shall be fixed by the Permanent Committee upon proposals submitted by the Central Committee.

The appointment shall cover the period between two Congresses and it shall be renewable immediately upon expiry.

E. The Permanent Secretary shall attend all meetings of the Permanent Committee, the General Assemblies and any standing committees which may be set up. He shall take the minutes of the above-mentioned meetings.

F. He shall administer the finances of the Federation in consultation with the Treasurer, elected by the General Assembly.

8. *The Honorary Auditors.*—

A. The auditors and two deputy auditors shall be appointed by the Permanent Committee to act for the same period as the Committee.

B. They shall report on the administration of the Federation finances. The accounts shall be submitted to them by the Treasurer, who will allow sufficient time for a proper audit and for the submission of a written auditor's report to the annual meeting of the Permanent Committee.

9. *The Congress.*—

A. The Federation shall meet periodically in congress, to which all affiliated associations shall be invited. Persons and bodies engaged or interested in the surveying profession may also be invited to the Congress.

B. An International Congress shall be held at least once every five years in a city of a nation chosen by the Permanent Committee and approved by the Government concerned.

C. The Congresses are intended to serve the purpose of exchanging technical information by means of papers and addresses given by members of the Federation and others.

D. The business of the Congresses shall be conducted in plenary and committee meetings.

E. The following are entitled to vote: at plenary meetings, all members present except when decisions are being taken by the authoritative bodies of the Federation. At committee meetings, only duly appointed committee members may vote.

F. The Congresses shall be organized by a local committee working in collaboration with the Permanent Committee.

G. The Permanent Committee shall draw up the agenda for the plenary meetings of the Congress, and its officers shall conduct those meetings.

H. The organization of social and other functions shall be left to the affiliated association of the country in which the Congress is to be held.

10. *The Technical work of the Congress.*—

A. The proceedings of the technical and scientific committees shall be conducted by chairmen, appointed by the General Assembly or by the Permanent Committee at its meeting directly preceding the opening of the congress. Committees may add to the number of their members by co-option. At the final plenary meeting of the congress the *rapporteurs* shall briefly summarize the results of the work of their respective committees and shall submit their reports ready for printing.

B. Delegates to the congress are entitled to attend the committee meetings, but as a general rule only committee members may address such meetings.

C. A summary of the papers submitted to the Congress shall be published, as well as the reports and recommendations of the Congress Committees, the list of delegates and exhibitors.

D. The permanent secretariat shall be instructed to circulate publications referring to the congress.

11. *The Federation Finances.*—

A. The Federation shall create funds necessary to carry out the objects assigned to it by collecting subscriptions from its members, grants or subsidies from Authorities, and gifts or legacies from individuals.

B. *Entrance fee.*—Each affiliated association shall pay an entrance fee of 100 gold francs and, in addition, a capitation fee of 50 centimes per member of the association.

D. *Annual subscription.*—Each affiliated association shall pay an annual subscription varying at the discretion of the Permanent Committee, whose decision shall be based on the economic situation at the time, between 50 to 200 gold francs, in addition to a subscription ranging from 30 centimes to one gold franc per member of the association.

Note: When a new member is enrolled, the Permanent Committee in collaboration with the association concerned, shall determine the amount of the subscription to be paid.

12. *Supplementary Provisions.*—Regulations not contained in these Standing Orders but which may hereafter become necessary for the satisfactory administration of the Federation shall be provisionally drafted by the Permanent Committee in the form of Standing Orders, and they shall be based upon proposals put forward by the Central Committee. This draft shall be submitted to the General Assembly for approval before publication.

THE OFFICERS, AND THE PERMANENT COMMITTEE, AND THE MEMBER-NATIONS OF THE INTERNATIONAL FEDERATION OF SURVEYORS

1935

Président d'honneur—J. S. Roupcinsky (Belgium)
Vice-Président d'honneur—René Danger (France)
President (1934-1938)—Colonel H. C. Cole, C.B.E., F.S.I., F.I.A.S., (Great Britain)
Vice-Presidents (1934-1938)—E. Fanti (Italy); Sir Charles Gott, M.Inst.C.E., F.S.I. (Great Britain); and Colonel L. Surmacki (Poland)

Members of the Permanent Committee—

Belgium—
A. Beniest
A. Cranshoff
A. Lemaitre
H. Termote
R. Vranckx

Czechoslovakia—
Prof. J. Petrik

Denmark—
K. Hendriksen
A. Kristiansen

Great Britain—
F. J. Trumper, P.A.S.I., F.I.A.S.

Holland—
J. M. H. Heines
J. M. Tienstra

Latvia—
E. Daugulis
F. Grinfelds
A. Weiss

Sweden—
P. Mogensen
K. D. Myrbeck

Switzerland—
S. Bertschmann

Jugoslavia—
Dr. Z. Kralj
S. Vuichich

(Representatives are to be nominated from France, Italy, and Poland)

Secretary-General and Treasurer (1934-1938)

Major A. H. Killick, D.S.O., M.C., B.A. (Great Britain)

MEMBERS OF THE PERMANENT COMMITTEE

REPRESENTING THE AMERICAN INSTITUTE OF REAL ESTATE APPRAISERS

Philip W. Kniskern, Philadelphia, Pennsylvania
Maurice F. Reidy, Worcester, Massachusetts
Harry F. Gilbert, Baltimore, Maryland
E. L. Ostendorf, Cleveland, Ohio
R. C. Houghton, Washington, D. C.

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Digest of the Minutes

The American Institute of Real Estate Appraisers convened at Haddon Hall, Atlantic City, New Jersey, at 2:00 P. M. on Tuesday, October 22, 1935, with President Joseph B. Hall presiding.

The Nominating Committee presented the following report of nominations of Members for election to the Governing Council:

FOR THE TERM EXPIRING DECEMBER 31, 1938
Maurice F. Reidy, Worcester, Mass.
J. Alvin Register, Jacksonville, Fla.
George L. Schmutz, Los Angeles, Calif.
Ralph V. Field, Galesburg, Ill.
Newton C. Farr, Chicago, Ill.
George W. Drennan, Detroit, Mich.
Henry S. Miller, Dallas, Texas.
Maurice R. Massey, Philadelphia, Pa.
Frank M. McCurdy, Brooklyn, N. Y.

FOR THE TERM EXPIRING DECEMBER 31, 1937
R. W. Patton, San Antonia, Texas.
Wm. A. Eastman, Seattle, Wash.
Edward Eagan, Syracuse, N. Y.
James J. Grogan, Cincinnati, Ohio (to fill the unexpired term of President Joseph B. Hall, who becomes an ex-officio member of the Governing Council).

FOR THE TERM EXPIRING DECEMBER 31, 1936
C. F. Curry, Kansas City, Mo.
Charles J. Daly, St. Louis, Mo.
D. Earl Wilson, Miami, Fla.

An address was delivered by Ayers J. du Bois of Washington, D. C., on the subject of "Depreciation."

An address was delivered by Frederick M. Babcock of Washington, D. C., on the subject "The Federal Housing Administration Underwriting System."

The meeting adjourned at 5.00 P. M.

EVENING SESSION, OCTOBER 22, 1935

The American Institute of Real Estate Appraisers convened at Haddon Hall, Atlantic City, N. J., at 8:00 P. M. on Tuesday, October 22, 1935, with President Joseph B. Hall presiding.

A paper on "The Appraisal Process" prepared by K. Lee Hydor of Milwaukee, Wisconsin, was presented by Harry Grant Atkinson.

An address was delivered by John J. Berry of Newark, New Jersey, on the subject "Court Testimony."

The following members were elected by unanimous ballot as Governing Councillors for the terms indicated:

FOR THE TERM EXPIRING DECEMBER 31, 1938
Maurice F. Reidy, Worcester, Mass.
J. Alvin Register, Jacksonville, Fla.
George L. Schmutz, Los Angeles, Calif.
Ralph V. Field, Galesburg, Ill.
Newton C. Farr, Chicago, Ill.
George W. Drennan, Detroit, Mich.
Henry S. Miller, Dallas, Texas.
Maurice R. Massey, Philadelphia, Pa.
Frank M. McCurdy, Brooklyn, N. Y.

FOR THE TERM EXPIRING DECEMBER 31, 1937
R. W. Patton, San Antonio, Texas.
Wm. A. Eastman, Seattle, Wash.
Edward Eagan, Syracuse, N. Y.
James J. Grogan, Cincinnati, Ohio (to fill the unexpired term of President Joseph B. Hall, who becomes an ex-officio member of the Governing Council).

FOR THE TERM EXPIRING DECEMBER 31, 1936
C. F. Curry, Kansas City, Mo.
Charles J. Daly, St. Louis, Mo.
D. Earl Wilson, Miami, Fla.

The meeting adjourned at 10:30 P. M.

Afternoon Session, October 23, 1935

The American Institute of Real Estate Appraisers convened at Haddon Hall, Atlantic City, N. J., at 2:00 P. M., on Wednesday, October 23, 1935, with President Joseph B. Hall presiding.

Maurice F. Reidy of Worcester, Mass., delivered an address on "The Appraisal of A Bank Building."

Herman O. Walther of Chicago, Illinois, delivered an address on "Analysis and Reconstruction of Operating Statements."

Reports were submitted and referred to the Governing Council from the following committees:

A. By-Laws Committee.
B. Committee on Local Chapters.
C. Membership Committee.
D. Committee on Tax Procedure.
E. Public Relations Committee.
F. Admissions Committee.
G. Disciplinary Committee.
H. Finance Committee.
I. Committee on Ethics.

The meeting adjourned at 5:00 P. M.

MEETING OF THE GOVERNING COUNCIL

The Governing Council of the American Institute of Real Estate Appraisers convened at Haddon Hall in Atlantic City, New Jersey, on October 23rd, at 7:30 P. M. President Joseph B. Hall presided. The following members were present:

Joseph B. Hall, St. Louis, Mo., President.
Arthur C. Houghton, Washington, D. C.
W. H. Ballard, Boston, Mass.
Ralph D. Baker, Camden, N. J.
Harry E. Gilbert, Baltimore, Md.
E. L. Ostendorf, Cleveland, Ohio.
Frank H. Taylor, East Orange, N. J.
Philip W. Kniskern, Philadelphia, Pa.
J. Alvin Register, Jacksonville, Fla.
Cuthbert E. Reeves, Washington, D. C.
Maurice F. Reidy, Worcester, Mass.
Mark Levy, Chicago, Ill., Ex-officio.

The following newly elected members of the Governing Council for 1936 were present:

Newton C. Farr, Chicago, Ill.

Ralph V. Field, Galesburg, Ill.
Maurice R. Massey, Philadelphia, Pa.
C. F. Curry, Kansas City, Mo.
George W. Drennan, Detroit, Mich.
Frank McCurdy, Brooklyn, N. Y.
R. W. Patton, San Antonio, Tex.

On motion of Mr. Ballard, seconded by Mr. Houghton, unanimously carried, the reading of the Minutes of the meeting held in Detroit on May 29, 1935, was waived.

MEMBERSHIP REPORT

The following Membership Report was accepted on motion of Mr. Ostondorf, seconded by Mr. Register, and unanimously carried:

	Actual to Oct. 1, 1935	Budgeted For 1935
Number of Members	394	392
Number of Limited Members	15	30
Number of Affiliates	239	275

Mr. Ostendorf moved, seconded by J. Alvin Register, that Harold V. Condict, Orlando, Fla., be reinstated to Membership upon receipt of favorable recommendation from the Florida Chapter.

FINANCIAL REPORT

On motion of Mr. Reeves, seconded by Mr. Gilbert, and unanimously carried, the financial report and Budget Comparison shown below was approved, as submitted by Mark Levy, Treasurer:

REVISION OF 1935 BUDGET

On motion of Mr. Reeves, seconded by Mr. Gilbert, it was unanimously agreed to revise the 1935 Budget to allot 56% of the funds received during the year 1935 income only, to the Salary Fund Account and the Rent Fund Account (49% and 7%, respectively); also that the Budget for 1936 be on a dollar rather than percentage basis.

DUPLICATE MEMBERSHIP CERTIFICATES

It was moved by Mr. Reidy, seconded by Mr.

	Budgeted for 1935	Revised May 29, 1935	Actual to Oct. 1, 1935	Additions This Year
A. INCOME:				
Dues—M. A. I.s	$ 7,500.00*	$ 5,877.86	$ 5,239.51	$ 37.50
Dues—Limited	600.00*	300.00	120.00	
Dues—Affiliates	2,500.00*	1,150.00	1,118.74	
Admissions Account	1,000.00	745.00	540.00	50.00
Journals—Members	1,750.00	2,775.00	3,180.00	12.50
Journals—Non-Members		1,623.25	1,367.25	31.75
Miscellaneous		17.26	50.50	
Sale of Terminology Books			42.00	100.00
Case-Study Courses			10,001.07	
Totals	$13,350.00	$12,488.37	$21,659.07	$ 230.25
B. EXPENDITURES:				
Dues, Refunds and Transfers		$ 125.85	$ 55.00	$ 100.00
Admissions Account		841.58	713.48	25.00
Journals	$ 4,000.00	2,966.78	2,267.30	775.00
Postage	500.00	301.54	204.98	60.00
Printing and Stationery	750.00	503.98	445.88	150.00
Salary Fund Account	5,757.50	4,375.10	4,100.31	1,612.10
Rent Fund Account	822.50	625.00	585.77	230.30
Travel	500.00	500.00	82.29	100.00
Miscellaneous	1,020.00	532.21	307.16	75.00
Terminology			363.31	200.00
Case-Study Courses			7,314.60	
Educational Committee General			64.85	1,000.00
Totals	$13,350.00	$10,772.04	$16,504.93	$4,327.00
Excess of Receipts over Expenses				$ 5,154.14
Surplus, January 1, 1935				3,190.91
Net Balance				$ 8,345.05
C. SUMMARY OF SURPLUS:				
Cash and Certificates of Deposit				$ 9,420.80
Less Funds on Deposit				970.00
				$ 8,450.80
Less Accounts Payable				105.75
Net Balance				$ 8,345.05

*These figures include $5.00 for each Journal Subscription.

Houghton, and unanimously carried, that the Membership Certificate, as the property of the Institute, cannot be duplicated by photostating or any other process, nor by the issuance of duplicates.

REPRESENTATIVES FOR THE PERMANENT COMMITTEE OF THE INTERNATIONAL FEDERATION OF SURVEYORS

On motion of Mr. Register, seconded by Mr. Reeves, the following members were unanimously elected to serve on the Permanent Committee of the International Federation of Surveyors:

Maurice F. Reidy, Worcester, Mass., Chairman.
Harry E. Gilbert, Baltimore, Md.
E. L. Ostendorf, Cleveland, Ohio.
Philip W. Kniskern, Philadelphia, Pa.
Arthur C. Houghton, Washington, D. C.

REPORT OF ADMISSIONS COMMITTEE

On motion of E. L. Ostendorf, seconded by Mr. Reeves, and unanimously carried, the following candidates were elected to the Member Grade:

Raymond F. Ahern, Los Angeles, Calif.
W. G. Harris, Los Angeles, Calif.
David L. Montonna, Los Angeles, Calif.
Thurston H. Ross, Los Angeles, Calif.
Louis M. Pratt, Pasadena, Calif.
Wm. M. Hotchkiss, New Haven, Conn.
Charles J. Pietsch, Honolulu, T. H.
William C. McLennan, Chicago, Ill.
James H. Finnegan, Peoria, Ill.
Leonard C. Smith, East Chicago, Ind.
David Neiswanger, Topeka, Kan.
Charles H. McKenney, Jr., Brockton, Mass.
William A. Tanney, Detroit, Mich.
Clarence S. Vaughn, Detroit, Mich.
Fred L. Chapman, Minneapolis, Minn.
Grover Godwin, St. Louis, Mo.
R. E. Thompson, Jersey City, N. J.
George Goldstein, Newark, N. J.
A. N. Lockwood, Newton, N. J.
James R. Murphy, New York, N. Y.
Wm. Garner Bee, Schenectady, N. Y.
A. Ray Walters, Canton, Ohio.
Michael O'Byrne, Cincinnati, Ohio.
Victor J. Free Cleveland, Ohio.
Charles F. Johnson, Columbus, Ohio.
Rufus Lisle, Dayton, Ohio.
Clyde A. King, Tulsa, Okla.
Glyndon Priestman, Philadelphia, Pa.
Percy Galbreath, Memphis, Tenn.
Edward Ross McCory, Spokane, Wash.

On motion of Mr. E. L. Ostendorf, seconded by Mr. Reidy, unanimously carried, ten additional candidates were elected to the Member Grade subject to stated conditions.

On motion of E. L. Ostendorf, seconded by Mr. Ballard, Henry F. Linsmann of Mount Vernon, N. Y., was unanimously elected to Limited Member Grade; and Richard A. Muessel of South Bend, Ind., and Wilhelmine B. Sheffield, of Beaumont, Texas, were unanimously elected to Limited Member Grade.

On motion of E. L. Ostendorf, seconded by Mr. Register, the recommendations of the Admissions Committee to defer action on 29 applications for reasons as stated, and to close the files of 26 applicants, was unanimously approved.

REPORT OF BY-LAWS COMMITTEE

Harry E. Gilbert, Chairman of the By-Laws Committee, reported that the membership of the American Institute of Real Estate Appraisers recommends that no action be taken at present regarding the By-Laws requirements for admission to membership.

Mark Levy, President of Illinois Chapter No. 6, reported the recommendation of that Chapter as favoring Proposed Amendment No. 1, with the exception of proposed Section 4, of Article II, eliminating local Board approval of applicants which the Illinois Chapter considers desirable. The Illinois Chapter favors one grade of membership.

On motion of Mr. Ostendorf, seconded by Mr. Houghton, and unanimously carried, Section 9 of Article II of the By-Laws of the American Institute of Real Estate Appraisers, in accordance with Article XVIII pertaining to amendments, was changed to read as follows:

"SECTION 9. All members shall be admitted to the Institute only by a vote of not less than 80% of the Governing Council present at a quorum meeting. The President may, at his discretion, order a ballot by mail, in which case 80% of the entire Governing Council must vote affirmatively to elect; but three negative ballots shall exclude. Candidates for membership shall be examined under such rules of procedure as the Governing Council may determine."

REPORT OF DISCIPLINARY COMMITTEE

A written report by W. H. Ballard, Chairman of the Disciplinary Committee, was presented, approved, and filed.

REPORT OF COMMITTEE ON EDUCATION AND RESEARCH

Mr. Houghton moved that the written report of the Education and Research Committee submitted by K. Leo Hyder, Chairman, be accepted and filed, but that definite action on the program recommendations be delayed until the January meeting. Mr. Kniskorn seconded the motion which was unanimously approved.

Mr. Taylor moved, seconded by Mr. Gilbert, and unanimously approved, that the Governing Council give a vote of thanks to K. Lee Hyder, Chairman of the Education Committee in appreciation of his splendid work throughout the year, and especially in conjunction with the Summer Courses at the University of Chicago.

REPORT OF ETHICS COMMITTEE

Frank A. Taylor, Chairman of the Ethics Committee, presented his report which was approved and filed, but no action was taken on recommendations.

Discussion followed the presentation of the report on the propriety of Chapters issuing booklets or brochures of their membership lists. It was suggested that any such publication be submitted

to the Ethics Committee for approval before being distributed.

It was agreed that a special committee be appointed to draft additional provisions for Rules of Professional Ethics covering compensation for appraisals made for tax reduction purposes.

REPORT OF FINANCE COMMITTEE

It was moved by Philip W. Kniskern, Chairman of the Finance Committee, and seconded by Mr. Reeves, and duly carried, that the report of the Committee be approved and filed as read.

REPORT OF COMMITTEE ON LOCAL CHAPTERS

Cuthbert E. Reeves, Chairman of the Committee on Local Chapters, presented a written report on the activities of the Chapters which was approved and filed.

REPORT OF PUBLIC RELATIONS COMMITTEE

Ralph D. Baker, Chairman of the Public Relations Committee, presented a written report which was approved and filed. Mr. Reidy moved, seconded by Mr. Gilbert, and unanimously carried, that the American Institute of Real Estate Appraisers is opposed, at this time, to licensing laws for appraisers.

On motion of Mr. Ballard, seconded by Mr. Register, the Governing Council expressed its appreciation of the work of the Public Relations Committee, and its Chairman, Ralph D. Baker, through the year.

REPORT OF MEMBERSHIP COMMITTEE

Mr. J. Alvin Register, Chairman of the Membership Committee, presented a written report of progress which was approved and filed.

REPORT OF COMMITTEE ON TAX PROCEDURE

The Committee on Tax Procedure, recently appointed, was not ready to report.

REPORT OF ELECTION OF GOVERNING COUNCILLORS

Mr. E. L. Ostendorf, Chairman of the Nominations Committee, presented the names of the newly elected Governing Councillors.

On motion of Mr. Ballard, seconded by Mr. Kniskern, and unanimously carried, the Governing Council expressed its appreciation for the work of Mr. Ostendorf and his committee.

REPORT OF SPECIAL COMMITTEE ON NOMINATIONS OF OFFICERS

Mr. Kniskern, Chairman of a Special Committee on Nominations of Officers consisting of Harry E. Gilbert and J. W. Cree in addition to the Chairman, submitted the following nominations for election to offices as designated for 1936.

President..Maurice F. Reidy, Worcester, Mass.

Vice-Presidents:

For Great Lakes Region—E. L. Ostendorf, Cleveland, Ohio.

For the Southwest Region—George L. Schmutz, Los Angeles, Calif.

For the North Central Region—K. Lee Hyder, Milwaukee, Wis.

For the Southeast Region—J. Alvin Register, Jacksonville, Fla.

For the Central Atlantic Region—Ralph D. Baker, Camden, N. J.

For the New England Region—Wm. H. Ballard, Boston, Mass.

For the South Central Region—R. W. Patton, San Antonio, Texas.

For the Northwest Region—Wm. A. Eastman, Seattle, Wash.

On motion of Mr. Taylor, seconded by Arthur C. Houghton, and unanimously carried, the secretary was instructed to cast a single ballot electing those nominated to the offices as designated.

VOTES OF APPRECIATION

On motion of E. L. Ostendorf, seconded by Maurice F. Reidy, and unanimously carried, the Governing Council expressed its appreciation of the work of Harry Grant Atkinson as Director of Activities during the year, and as Administrative Director for the Summer Courses held at the University of Chicago.

PRESENTATION OF APPRAISAL BOOKS TO THE LIBRARY OF THE CHARTERED SURVEYORS INSTITUTION

Upon a motion by Maurice F. Reidy, seconded by Mr. Kniskern, and unanimously carried, the Governing Council was instructed to present the Library of the Chartered Surveyors Institution in London with copies of the books of Philip W. Kniskern, Frederick M. Babcock, and Cuthbert E. Reeves.

Mr. Kniskern and Mr. Reeves, present at the meeting, offered to present the Institute with autographed copies of their respective books for this purpose.

RESIGNATION OF PRESIDENT HALL

On account of the change in his business connection, President Joseph B. Hall, presented his resignation, effective immediately. He expressed his regret at the necessity for such action, and his appreciation of the faithful work of the various Committees and their Chairmen during his term of office.

On motion of Mr. Kniskern, seconded by Mr. Taylor, and unanimously carried, the Governing Council accepted President Hall's resignation with sincere regret, and expressed its wishes for his continued success in his new position.

ELECTION OF PRESIDENT GILBERT

On motion of Mr. Houghton, seconded by Mr. Kniskern, and unanimously carried, Harry E. Gilbert of Baltimore, Maryland, First Vice-President was elected President to fill the unexpired term of Mr. Hall. Mr. Gilbert took the Chair and presided during the balance of the meeting.

COMMITTEE ON HONORARY SYMBOLS

On motion of Mr. Ostendorf, seconded by Mr. Ballard, and unanimously approved, President Gilbert was requested to appoint a special committee to select and adopt appropriate symbols of gratitude to be awarded to Past Presidents Kniskern and Hall for their services to the Institute. Mr. Gilbert appointed Mr. Ostendorf and Mr. Taylor to serve on this special committee to report at the next meeting of the Governing Council.

There being no further business, the meeting adjourned.

Current Articles

Corner Store Occupancy on the lower East Side. Joseph Platsker. R. E. R. Nov. 23, 1935. p. 5. $0.70. An example of neighborhood occupancy analysis of small business properties.

The Fundamentals of Condemnation Appraising and Expert Testimony. W. W. Chalmers. M. A. I. N. R. E. J. Dec. 1935. p. 46. $1.20. Mr. Chalmers was 1935 President of the New Jersey Real Estate Association.

The German Tax Reform of 1934-1935. Paul Haensel. T. M. December, 1935, p. 705. $0.45. Summary of the new taxes and reforms put into effect Jan. 1, 1935.

The Impending Inflation and Its Effect on Real Estate. Wm. Lloyd Davis, Ph. D. N. R. E. J. December, 1935, p. 25. $1.20. The factors which are signals of approaching inflation indicate the probable trends in the real estate market.

Limited Property Taxes. Paul E. Stark, M. R. July, 1935, p. 50. $0.45. A summary of progress made in real estate tax limitation.

Operating Data on Non-Elevator Apartments. Herbert K. Goodkind. R. E. R. August 17, 1935, p. 15. $0.70. An interesting analysis of costs and income for this type of property.

Private versus Public Enterprise in Housing. Walter S. Schmidt J. L. E. November, 1935, p. 342. $1.45. The President of the National Association of Real Estate Boards points out the pitfalls of an extensive governmental housing program.

The Real Estate Bond Issue of the Future. David Saperstein. N. R. E. J. November, 1935, p. 51. $1.20. Requirements of the Securities Exchange Commission for future issues of real estate bonds.

Residential Constructive Activity in the United States. F. H. L. R. November, 1935, p. 48. $0.35. Comparative statistics on residential construction.

Study Your Percentage Lease. Harry E. Taylor. R. E. Nov. 2, 1935, p. 7. $0.30. Items to be considered in this type of contract.

The United States Becomes the Most Highly Taxed Nation. Henry J. Allen. M. R. July, 1935, p. 24. $0.45. Presents the thesis that when the bill is paid for our present "social" purchases we will pay higher taxes than any other nation.

Urban Real Estate Mortgage Delinquency. Roy J. Burroughs. J. L. E. November, 1935, p. 357. $1.45. Policies of selection of urban mortgages to avoid delinquency are presented through this intensive study of loans of a Cleveland firm during the period 1920-1930.

What the Social Security Act Requires of All Employers. N. R. E. J. December, 1935, p. 34. $1.20. Tax Consultants tabulate requirements for Pension and Unemployment Fund payments.

Beauregard House. J. H. Correjolles and James Lambert. A. F. November, 1935, p. 495. $1.20. History and details of an interesting old New Orleans house built in 1826.

The full names of the magazines indicated by initials on these pages are given below:

A. F.	Architectural Forum	Monthly
F. H. L. R.	Federal Home Loan Bank Review	Monthly
J. L. E.	Journal of Land and Public Utility Economics	Quarterly
M. R.	Manufacturers' Record	Monthly
N. R. E. J.	National Real Estate Journal	Monthly
R. E.	Real Estate	Weekly
R. E. R.	Real Estate Record	Weekly
T. M.	Tax Magazine	Monthly

Copies of the magazines in which these articles appear may be secured from the Library of the National Association of Real Estate Boards, 22 W. Monroe St., Chicago, Ill. The price listed includes the price of the magazine and a small service charge for mailing and postage. Subscriptions may also be placed through the National Association.

New Members

Admitted to the Grade of Member

RAYMOND F. AHERN, LOS ANGELES, CALIFORNIA. Born in Lincoln, Nebraska, in 1897; Appraiser, Security First National Bank; President, Los Angeles Bank Appraisers Association; does not hold a personal membership in the Los Angeles Real Estate Board but Security First National Bank is a member of the Board; professional territory covers Los Angeles County and southern California; B. S. Degree in Mechanical Engineering at University of Nebraska; completed post graduate work in business finance and real estate appraisal at University of Southern California; nine years' experience in appraising real estate, including the valuation of residences, stores, apartments, clubs, markets, theatres, churches, office buildings, loft properties, leaseholds, etc.; qualified in Court as an expert on the values of residential properties, 1934-35; Construction Engineer, 1920-22; designer and construction cost Estimator, 1923-26.

W. G. HARRIS, LOS ANGELES, CALIFORNIA. Born in Reno County, Kansas, in May, 1892; Member Los Angeles Realty Board; professional territory covers the State of California; A. B. degree from Southwestern College, Winfield, Kansas, 1917; salaried appraiser for the Security First National Trust & Savings Bank, 1922 to 1927; licensed Real Estate Broker, State of California, 1935; qualified in court on the value of various kinds of real estate; has appraised property for the Equitable Life Assurance Association of the United States, The New World Life Insurance Co. of Seattle, Washington, The Jefferson Standard Life Insurance Company of Greensboro, North Carolina, The Acacia Life Insurance Company, Washington, D. C.; has appraised properties for the Security First National Trust and Savings Bank, Citizens National Trust and Savings Bank, German-American Trust and Savings Bank, The Title Guaranty and Trust Company, all of Los Angeles; has also appraised for Building and Loan Associations; appraisal experience includes the valuation of industrial plants, hotels, stores, business properties, apartment properties, and newspaper plants.

THURSTON HOWARD ROSS, LOS ANGELES, CALIFORNIA. Born in Richmond, Ind., October, 1894; Real Estate Appraiser; Professor, College of Commerce, University of Southern California; Director, Bureau of Business Research, University of Southern California; registered Civil Engineer; Member American Society of Mechanical Engineers; American Management Association (Director); past president Engineers' Club of Los Angeles; Member of University Club, Los Angeles; Associate Member Los Angeles Realty Board; professional territory covers the Los Angeles Metropolitan Area; Author, Teacher, and Lecturer; A.B. from Otterbein College; M.B.A. degree from University of Southern California, Ph.D. University of Southern California; Author of *Real Estate Appraisal, Some Economic Aspects of Urban Land Valuation*, and *Southern California Business Review;* 16 years' experience in the appraisal of real property, including the valuation of all types of property typically found in metropolitan areas; Licensed Real Estate Broker, State of California; qualified in court as an expert on the valuation of residential, industrial, and commercial properties; has appraised for the Equitable and Northwestern Life Insurance Companies; has also appraised property for banks.

DAVID L. MONTONNA, ORANGE, CALIFORNIA. Born in Cape Vincent, New York, December, 1897; Member, Orange Realty Board; Fee Appraiser, H.O.L.C.; Part Time Reviewing Appraiser, H.O.L.C.; professional territory covers Southern California; Author and Lecturer; 2½ years in Syracuse University; 3 year Law Course in the American Extension University; 8 courses in Valuation Procedure under such instructors as Peter Hanson, M.A.I., Ayers J. du Bois, M.A.I., George L. Schmutz, M.A.I., and Loring O. McCormick; 11 years actively engaged in the real estate business; Teacher in the Public Schools in New York State; at present instructing a class in Valuation Procedure for the Santa Anna Realty Board; 10 years' experience in appraising real property, including the valuation of vacant, stores, garages, service stations, bungalows, and apartments; licensed real estate Broker in California since 1923, engaged in the building business in San Francisco constructing single family homes and four flat apartments for some years; 11 years of general sales experience for private owners, banks, building and loan companies, and mortgage companies.

LOUIS M. PRATT, PASADENA, CALIF. Born in Minneapolis, Minn.; Affiliate Member, Pasadena Realty Board; doing business under his own name in Southern California; Chairman, Survey Committee, Pasadena Realty Board; Associate Member, Appraisal Committee, Pasadena Realty Board; Former Director, Pasadena Realty Board; Former Chairman, Appraisal Committee, Pasadena Realty Board; served 4 years as Secretary, Pasadena Board of Education, during which time he handled all of the Board of Education's real estate problems; 15 years' experience in real

estate brokerage; 5 years' experience in real estate appraising; graduated from the Appraisal Course of the University of Southern California.

WM. M. HOTCHKISS, NEW HAVEN, CONNECTICUT. Born in Derby, Connecticut, in August, 1883; President, The Wm. M. Hotchkiss Company; professional territory covers New Haven and Bridgeport; Active Member, New Haven Real Estate Board; appraisal experience includes the valuation of residential, commercial, and industrial property; twenty years experience in real estate.

FREDERICK MORRISON BABCOCK, WASHINGTON, D. C. Born in Downers Grove, Illinois, in February, 1898; Chief, Underwriting Section, Underwriting and Realty Division of the Federal Housing Administration; professional territory covers United States and territories; Author, Lecturer, and Teacher; Graduate of Northwestern University, 1920; Member of firm, William H. Babcock and Sons, 1922-1931; Instructor in Real Estate Appraisals, Chicago Y. M. C. A.; formerly instructor in Appraisal, Northwestern School of Commerce; formerly special lecturer on appraisals for National Association of Real Estate Boards; fourteen years' experience in real estate appraisals, including the valuation of office buildings, bank buildings, stores, hotels, etc.; total appraisals in excess of $1,500,000,000, and include no cases of wholesale valuation, only individual cases handled separately with complete detailed reports; qualified in Court as an expert on all kinds of urban property in Chicago, Newark, Washington, Milwaukee, Detroit, and elsewhere; appraised property for the Prudential Life Insurance Company, Chicago Title and Trust Company, and other financial institutions.

CHARLES J. PIETSCH, HONOLULU, HAWAII. Born in Brooklyn, NEW YORK, July, 1888; President, Charles J. Pietsch, Inc., Ltd.; Director and Past President, Honolulu Realty Board; Vice-President, National Association of Real Estate Boards, 1934; professional territory covers Hawaii; Graduate Architect, Cooper Union New York, 1909; Graduate, Real Estate Course, University of Hawaii; 16 years in the appraising of real estate; licensed Real Estate Broker and Salesman for the territory of Hawaii; qualified in Court as an Expert on values of business and residential properties, 1920-1934, inclusive; has appraised residential property and business property for building and loan associations; has had experience in the building of homes as a contractor; 25 years' experience in selling real estate in New York and Hawaii.

JAMES H. FINNEGAN, PEORIA, ILLINOIS. Born in Brimfield, Illinois, in July, 1891; owner and manager of J. H. Finnegan & Co., real estate brokers, appraisers and property managers; Active Member and President of Peoria Realty Board; Member, University Club of Peoria; Past State President, Illinois Exchange Clubs; professional territory covers State of Illinois; Knox College 1911-1914; A.B. Degree from University of Illinois in 1916; H.O.L.C. Appraiser and F.H.A. Valuator; Member Appraisal Committee Peoria Realty Board; Member Industrial Committee, Peoria Association of Commerce; 8 years' experience in appraising of real property including the valuation of apartment buildings, theaters, residences, schools, farm lands, sub-division properties, industrial properties, grain elevators, gas stations, commercial properties, etc.; Licensed Real Estate Broker, State of Illinois, 1927-1935; qualified in court as an expert on the value of industrial, business and residential properties, having given expert testimony in every court of record in Peoria and also in the Court of Claims and Commerce Commission at Springfield; has appraised for the Peoria Life Ins. Co., the Central National Bank & Trust Co., and other financial institutions.

LEONARD C. SMITH, EAST CHICAGO, INDIANA. Born in East Chicago, Indiana, May, 1896; President, Smith Brothers Realty Company, Vice-President Smith Investment Company; Active Member Hammond Real Estate Board; professional territory covers all of Lake County, Indiana, Calumet City, and the Southside of Chicago in Cook County, Illinois; Graduate of East Chicago Public High School; one year at Northwestern University Liberal Arts School, 1914; continuous real estate, investment, and building experience since the Spring of 1914 (excepting 18 months' service during the World War); completed 4 weeks' appraisal course at University of Chicago in August, 1935; ten years' experience in Real Estate Appraising, including the valuation of homes, apartments, and commercial property; qualified in court as an expert on the values of residential and commercial property in 1930; general supervising experience since 1919 in building and construction.

DAVID NEISWANGER, TOPEKA, KANSAS. Born in Topeka, Kansas, in November, 1892; President, Home Finance & Realty Co.; Director, Prudential Investment Co.; Secretary, Menninger Sanitarium Corporation; President Neiswanger Investment Co.; Active Member of Topeka Real Estate Board; professional territory covers State of Kansas; Author and Speaker; Graduate of Washburn College, 1914, A.B. Degree; 15 years' appraisal experience including the valuation of vacant, industrial properties, commercial properties, hotels, office buildings, and residences.

CHARLES H. McKENNEY, JR., BROCKTON, MASSACHUSETTS. Born in Brockton, Massachusetts, in January, 1901; Appraiser, H.O.L.C.; Fee Valuator, F.H.A.; President of Brockton Real Estate Board; professional territory covers Plym-

outh, Norfolk, and Bristol Counties; took course in Real Estate Practice at Boston University, 1925, and at Harvard University in 1932; ten years' experience in the appraisal of real property, including the valuation of estates, residences, factories, business properties, farms, commercial properties; qualified in Court as an expert on the values of mercantile, manufacturing, and residential properties; has had ten years residential sales experience; experienced as a builder of all types of properties over a period of ten years.

WILLIAM W. TANNEY, DETROIT, MICHIGAN. Born in Beaver Falls, Pennsylvania, in February, 1893; temporarily employed with Receiver, First National Bank, Detroit, as real estate appraiser of real estate under bond issue and collateral real estate loans held by the Receiver; Broker member of Detroit Real Estate Board; professional territory covers Wayne, Oakland, and Macomb Counties, Michigan; eight years' experience in the valuation of real property, including the appraisal of vacant lots, residential properties, office buildings, loft buildings, and store properties; licensed Real Estate Broker in Michigan since 1920; qualified in Court as an expert on the values of residential and business properties; has appraised for the Wayne County Federal Savings & Loan Ass'n.; had experience in the erection of five houses and one store building; ten years' experience in the selling of houses, including the supervision of salesmen; A.B. Degree in 1915 and M.A. Degree in 1916 from the University of Pittsburgh, School of Business Administration; LL.B. Degree from Detroit College of Law, 1923; operated in real estate business in Detroit since 1916; appraised real estate located in Detroit for Comptroller of Currency on collateral of First National Bank of Uniontown, Pa.; appraised real estate located in Detroit for Receiver of Lapeer County Bank of Imlay City, Michigan, 1933; assisted in survey of platted lots and buildings in Detroit metropolitan area 1931 under direction of Professor Ernest Fisher, University of Michigan.

CLARENCE S. VAUGHN, DETROIT, MICHIGAN. Born in Detroit, Michigan, in December, 1871; President of Vaughn-Bigelow Company; Broker member of Detroit Real Estate Board, also Director; professional territory covers Michigan, Indiana, and New York State; graduate of Detroit Business University; thirty years' experience in appraising real property, including the valuation of all types of properties typically found in metropolitan areas; qualified in Court as an expert on the values of River Front properties in 1934; has appraised for Fidelity Life Ins. Co. of Philadelphia, Mutual Life Ins. Co. of Newark, N. J., Peoples Commercial Savings Bank, and other financial institutions; has been in the building business for thirty years and has erected more than 3,500 stores, flats, residences, and factories; has sold properties of all descriptions in the State of Michigan for forty years; brokerage sales in 1928 amounted to approximately $2,000,000.

FRED L. CHAPMAN, MINNEAPOLIS, MINNESOTA. Born in Sycamore, Illinois, July, 1897; Assistant Manager of city real estate, mortgage and rental department of the First Minneapolis Company, affiliate of the First National Bank and Trust Company of Minneapolis; Treasurer of Hennepin Holding Co. and Burton Co., operators of Loop properties; Member of Board of Governors of Minneapolis Chapter, American Institute of Banking; Senior Member, Minneapolis Real Estate Board; professional territory covers Minneapolis and environs; 2 years in the College of Science, Literature and Arts at University of Minnesota; LL.B. Degree from Minnesota College of Law; Member of the Minnesota Bar; Lecturer and Teacher; 12 years' experience in the appraising of real property, including the valuation of dwellings, apartments, garages, churches, stores, and office buildings; qualified in court as an expert on the value of residential and apartment properties; has appraised for the Equitable Life Assurance Society of New York, the Title Insurance Co. of Minneapolis, and the Minneapolis Trust Company; 12 years' residential sales experience.

GROVER GODWIN, ST. LOUIS, MISSOURI. Born in St. Louis, Missouri, December, 1897; Chief Valuator, Federal Housing Administration, St. Louis District, comprising Eastern Missouri; Owner, Grover Godwin Real Estate Service; Owner, Grover Godwin Construction Service; (both of St. Louis); Member, St. Louis County Real Estate Board; professional territory covers the Central States area and Southern part of Florida; Graduate, University of Missouri with B.S. Degree in Engineering; took Agricultural course, Washington University; Captain, Engineers Reserve, U. S. Army; 10 years' experience in the appraising of real estate; valuations include farms, co-operative apartments, rental apartments, store buildings, acreage, theatres, banks, office buildings, orchards, churches, schools, and gymnasiums; licensed real estate broker since 1920; qualified in Court as an Expert on commercial property values in 1931; appraised properties for the General American Life Insurance Company; appraised all types of properties for fifteen different banks in the St. Louis area; general contractor in the St. Louis and Miami territory, erecting from $700,000 to $800,000 worth of buildings; 14 years' experience in selling residential property.

R. E. THOMPSON, JERSEY CITY, NEW JERSEY. Born in Olympia, Washington, in Feb-

ruary, 1899; Assistant Tax Agent, Central Railroad Co. of New Jersey; Member, American Academy of Political and Social Science; professional territory covers New York City, State of New Jersey, and eastern part of Pennsylvania; Associate Member of Real Estate Board of Newark; Author of numerous articles on various phases of real estate appraisals; fourteen years' experience in the appraising of real estate, including the valuation of vacant, industrial, office buildings, water front properties, dwellings, warehouses, timber land, farms, stores, hotels, etc.; Junior Land Appraiser, C., B. & Q. R. R., 1920-1921; Land Assistant, Central R. R. of N. J., 1921-1927; Land Appraiser, Interstate Commerce Commission, 1927-1933; Assistant Tax Agent, Central R. R. of N. J., 1933 to date; qualified in Court as an expert on values of water front properties in 1933.

GEORGE GOLDSTEIN, NEWARK, N. J. Born in New York City, N. Y.; Associate Member, Newark Real Estate Board; Secretary, Englewood Real Estate Boards; Vice-President, Goldstein & Goldstein, Inc.; Real Estate Appraiser for the Public Utility Commission of the State of New Jersey; professional territory covers primarily Bergen County; 11 years' experience in the appraising of real estate including the valuation of commercial, residential, and industrial properties; A.B. Degree from Columbia University in 1922.

A. N. LOCKWOOD, NEWTON, NEW JERSEY. Born in East Orange, New Jersey, in September, 1888; Real Estate and Insurance Broker; President, New Jersey Properties Company; Director, Newton Building & Loan Association; Broker Member of Sussex Co. Real Estate Board; professional territoy covers Sussex, Warren, and northern Morris and Passaic Counties; Graduate, University of Vermont, Ph.B.; studied at Rutgers University Real Estate Institute, 1928; specialized training in commercial engineering with Telephone Company; eight years' experience in the appraising of real property, including the valuation of vacant, farms, monasteries, estates, commercial property, bank buildings, dwellings; licensed real estate broker, 1926-1935 in State of New Jersey; licensed real estate salesman in State of New York, 1926-1928; qualified in Court as an expert on values of business, residential, acreage, farm, and industrial properties; has appraised for banks, trust companies, and building and loan associations; supervisor of construction of summer cottages, 1928-1930; supervisor of construction, renovating, and remodeling of country homes, 1926-1934; nine years' experience in residential sales.

JAMES R. MURPHY, NEW YORK, NEW YORK. Born in New York City, December 8, 1881; Real Estate Broker; Appraiser Auctioneer; at present (August, 1935) Real Estate Advisor to Mortgage Commission State of New York; general manager of Property Supervision Corp., handling properties valued at nearly $1,000,000,000; Member of the Real Estate Board of New York; Member of Bronx Real Estate Board; Member Westchester County Realty Board; official territory covers entire United States; Author and Teacher; 28 years' experience in the appraisal of real properties, including hotels, lofts, office buildings, and all types of apartments typically found in Metropolitan areas; Licensed Real Estate Broker; qualified in court as an expert on the values of all types of real estate; has appraised for the New York Life, Mutual Life, Equitable Life, and other insurance and financial institutions.

WILLIAM GARNER BEE, SCHENECTADY, NEW YORK. Born in Toronto, Ont., Canada, 1867; President, Grand Boulevard Homes Corporation; independent appraiser and broker; professional territory covers the County of Schenectady; Active Member, Schenectady Real Estate Board; 25 years' experience in the valuation of real estate, including wooded lands, river front property, garages, service stations, factory buildings, business properties, clubs, residences, etc.; had 3 years at Law School; 3 years associated as Manager in office of real estate development company in Toronto; 8 years in insurance business in New York City; 30 years in real estate development work in Schenectady.

A. RAY WALTERS, CANTON, OHIO. Born in Masontown, Pennsylvania, January, 1886; President and Treasurer Walters' Agency, Inc.; President, Canton Real Estate Board; Fee Appraiser Home Owners' Loan Corporation; professional territory covers State of Ohio; real estate appraisal experience covers a period of twelve years, including stores, residences, filling stations, apartments, business sites, factories, etc.; Licensed Real Estate Broker, State of Ohio, 1921-1935; has appraised residences and business properties for the Trust Department of the Harter Bank; 14 years' experience in residential sales; planned and supervised the construction of several residential properties.

MICHAEL J. O'BYRNE, CINCINNATI, OHIO. Born in Birmingham, Alabama, in December, 1893; Class B Member of Cincinnati Real Estate Board; Chairman, Apartment Owners & Managers Division, Cincinnati Real Estate Board; territory covered professionally, Southern Ohio and Kentucky; formerly Joint Manager, J. W. Darling Lumber Company, Baton Rouge, La.; formerly Production Manager, American Steel & Wire Co.; Fairfield, Ala.; formerly Secretary-Treasurer of Riverview Farms Co., Baton Rouge, La.; formerly Manager and Secretary-Treasurer, The Union Securities Company, Cincinnati, Ohio;

at present is Appraiser, Salesman, and Property Manager in the employ of the Real Estate Department of the Central Trust Company, Cincinnati, Ohio; eleven years' experience in appraising real property, including residences, apartments, stores, industrial property, garages, acreage, farms, etc.; licensed real estate broker in the State of Ohio; qualified in court as an expert in the value of apartment houses.

VICTOR J. FREE, CLEVELAND, OHIO. Born in Meadville, Pennsylvania, August, 1878; associated with E. L. Ostendorf, in connection with the Cleveland Union Trust Co. in liquidation matters; Associate Member of Cleveland Real Estate Board; professional territory covers Cleveland and Cuyahoga County, Ohio; ten years' experience in the appraising of real properties, including the values of leaseholds, warehouses, business properties, residential properties, and other classes of real estate typically found in Metropolitan areas; licensed real estate salesman; State of Ohio; qualified in court on the value of business property in 1933; has appraised for banks, building and loan associations, and other financial institutions; five years' experience in the construction of homes; twenty years' residential sales experience.

CHARLES F. JOHNSON, COLUMBUS, OHIO. Born in New Albany, Ohio; Active Member, Columbus Real Estate Board; professional territory covers the State of Ohio; President Ohio State Association of Real Estate Boards; President, Charles F. Johnson, Inc.; Ohio State University Law College, 1902; Trust Officer, State Savings Bank & Trust Co., 1902-1905; admitted to the Ohio Bar as Counselor at Law, 1902; active in real estate and appraisal business since 1905; appraisal experience includes the valuation of vacant property, office buildings, electric plants, etc.

RUFUS LISLE, DAYTON, OHIO. Born in Donerail, Kentucky, November, 1889; Realtor and Field Representative of New York Life Insurance Company; Active Member of Dayton Real Estate Board; Professional Territory covers Kentucky, Indiana, Ohio, and part of Virginia; 20 years' experience in the valuation of real property, including the appraising of apartments, farms; Licensed Real Estate Broker; qualified in Court as an expert on the values of farms and other types of real estate; has appraised property for the New York Life Insurance Company; building and construction experience on own account.

CLYDE A. KING, TULSA, OKLAHOMA. Born in Lockwood, Missouri, June, 1885; President First National Co.; Chairman Board, Tulsa Fed. Savings & Loan Assn.; President, Mid-Continent Security Co.; President, Tulsa Terminal Storage & Transfer Co.; Vice-President, State Federal Savings & Loan; Director, Seneca Coal Co.; Director Frisco Realty Corp.; President Tulsa Real Estate Board; Vice-President Oklahoma Mortgage Assn.; Member Okla.-State Real Estate Assn.; Member Mortgage Bankers Assn. of America; Director Oklahoma State Chamber of Commerce and Tulsa Chamber of Commerce; professional territory covers State of Oklahoma; Teacher and Lecturer; two years at Baker University, Baldwin, Kansas; one year at Findlay Engineering School; conducted night school classes in real estate appraising in Tulsa for two years; fourteen years' experience in the appraising of real property, including values of office buildings, stores, hotels, residential, and industrial property; has appraised property for insurance companies, banks, and building and loan associations; formerly Civil Engineer for Bell Telephone Co. at Kansas City; and Missouri-Pacific Ry., St. Louis; City Engineer, Coffeyville, Kansas; construction of residences and industrial properties; ten years' experience in residential sales.

GLYNDON PRIESTMAN, PHILADELPHIA, PA. Born in Hull, England, in July, 1884; President, Priestman-Helmetag Co.; Vice-President, Realty Appraisals, Inc.; Director and former President, Philadelphia Real Estate Board; Conveyancer and Director of Market Square Bldg. & Loan Assn.; Conveyancer and Director of Mutual Savings Building & Loan Association; Director of New York Realty Appraisals, Inc.; professional territory covers Philadelphia and vicinity; B.S. Degree from Haverford College in 1905; completed Real Estate Course at Temple University; twenty years' experience in the appraisal of real property, including the valuation of residences, vacant, apartments, commercial, and industrial property; qualified in Court as an expert on real property values; has appraised properties for life insurance companies, savings title and trust companies, building and loan associations, and other financial institutions; has had experience in the construction of residences, apartment houses, and stores.

PERCY GALBREATH, MEMPHIS, TENNESSEE. Born in Memphis, Tennessee, in September, 1866; District Appraiser, West Tennessee, H.O. L.C.; Senior Partner, Percy Galbreath & Son, Local Appraiser, National Life & Accident Insurance Co.; President, DeSoto Building & Loan Association of Memphis; Active Member, Real Estate Board of Memphis; professional territory covers Memphis and vicinity; twenty years' experience in appraising real property, including the valuation of residences, acreage, commercial property, and industrial property; licensed Real Estate Broker; qualified in Court as an expert on the values of residential, business, and commercial real estate; has appraised properties for National Life & Accident Ins. Co., for the Trust Dept. of First National Bank, and other financial

institutions; forty years' experience in residential sales.

EDWARD ROSS McCORY, SPOKANE, WASHINGTON. Born in Austin, Missouri, in February, 1873; at present (July, 1935) Chief Negotiator for the Home Owners' Loan Corporation in the Spokane District and consultant to the Spokane District Appraiser of the Home Owners' Loan Corporation; Associate Member of Spokane Realty Board; professional territory covers State of Washington east of the Cascade Mountains; former superintendent of public schools; 30 years' experience in the appraising of real property, including the valuation of vacant, residences, apartments, industrial property, timber lands, etc.; qualified in Court as an expert on the value of various kinds of real estate; has appraised for Savings and Loan Associations and for private clients; experienced as building contractor.

ADMITTED UNDER LIMITED SPECIFICATIONS

Article II, *Section* 3, *Sub-Section C — General —*

RICHARD A. MUESSEL, SOUTH BEND, INDIANA. Born in South Bend, Indiana, March, 1894; real estate broker; Property Manager for the Prudential Insurance Company in South Bend and Mishawaka; Active Member South Bend-Mishawaka Real Estate Board; professional territory covers South Bend and vicinity; graduate of University of Illinois; seven years' experience in the appraising of real property, including the values of farms, homes, and commercial properties; qualified in Court on the values of industrial, commercial, residential, and farm properties; has appraised properties for the American Trust Co., St. Joseph Loan and Trust Co., Citizens Loan & Trust Co., Building and Loan Association of South Bend, St. Joseph Building & Loan Association, South Bend Federal Savings and Loan, all of South Bend; has had experience since 1928 in remodeling and reconditioning of private dwellings; eight years' experience in residential sales.

HENRY F. LINSMANN, MOUNT VERNON, N. Y. Born in New York City, N. Y.; Chief Appraiser, H.O.L.C. District 30 D., White Plains, N. Y.; professional territory covers Westchester, Putnam, and Rockland Counties in New York; over 12 years' experience in the appraising of real property; 19 years' experience with the Irving Trust Company, 11 years of which were spent in the mortgage and real estate departments; 4 years with the State Title & Mortgage Company, New York City; 3 years' experience as a real estate broker; Graduate in the real estate courses of New York University; Member Westchester County Realty Board.

MRS. WILHELMINE B. SHEFFIELD, BEAUMONT, TEXAS. Born in Austin, Texas, February, 1900; Executive Secretary of the Beaumont Real Estate Board; Secretary Beaumont Insurance Exchange; local Secretary, Federal Housing Administration; Member of Beaumont Real Estate Board; Member of Beaumont Chamber of Commerce; professional territory covers Beaumont, Texas, and environs; attended Texas University; Attended Lamar College at Beaumont, Texas, studying business economics; taught in public schools in Texas for one year; has conducted several classes in appraising and salesmanship; eight years' experience in managing general insurance department in office of Paul H. Millard; eight years' experience in appraising in connection with Real Estate Board's Appraisal Committee, including the values of homes, vacant lots, store properties, hotels, schools, churches, etc.

Article II, *Section* 3, *Sub-Section D — Residential*

PETER HOEK, GRAND RAPIDS, MICHIGAN. Born in Grand Rapids, Michigan, in August, 1874; Broker Member, Grand Rapids Real Estate Board; fifteen years' experience as a real estate broker; Alternate Member, Grand Rapids Real Estate Board Appraisal Committee; State Appraiser, State and County Highway Department (Kent County); Vice-President and Past President, Northwestern Improvement Association, Grand Rapids; professional territory covers the City of Grand Rapids, Kent County, Michigan, and also parts of Western Michigan; completed the National Association of Real Estate Board's course in Real Estate Practice; has been employed by H.O.L.C. since December 18, 1933; seven years' experience in the appraising of real estate including the valuation of residential, commercial, industrial, and farm properties; licensed real estate Broker since 1920; qualified in Court as an expert on city, farm, and vacant property values in 1933; has appraised properties for the Grand Rapids Trust Company; was co-partner in the development of five sub-division projects since 1913; has built ten single-family houses and one four-family flat since 1913; fifteen years' experience in the sale of residential property.

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Standing Committees

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Charles H. Tompkins, Washington, D. C.
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Harry E. Gilbert, Baltimore, Md.
John A. Linnett, Newark, N. J.

ROSTER OF MEMBERS

(Figures in parenthesis following names indicate the Certificate Number issued to each Member, and the order of election.)

ALABAMA

Birmingham
John D. Chichester (228).....708 Jackson Bldg.
Frank B. Clark (261).....220 N. 21st St.
Hill Ferguson (242).....221 N. 21st St.
Harold M. Henderson (215).....2115 1st Ave.

CALIFORNIA

Glendale
Peter Hanson (11).....221 Arden Ave.

Long Beach
J. Mortimer Clark (50).....262 Lindero Ave.
J. C. Hoffman (71).....307 F. & M. Bank Bldg.
A. G. Maspero (51).....409 Security Bldg.
T. F. Merrick (27).....Heartwell Bldg.

Los Angeles
Raymond F. Ahern (424)....1939 N. Hobart Blvd.
Ralph Brashear (36).....4157 W. 57th St.
David W. Bush (197).....616 O. T. Johnson Bldg.
Cloice D. Carll (410).....5376 Vincent Ave.
George H. Coffin, Jr. (216).....
.....408 Hollywood Security Bldg.
Ayers J. duBois (107).....7079 Hollywood Blvd.
W. G. Harris (430).....215 W. 6th St.
Arthur L. Layden (104).....417 S. Norton Ave.
Nathan H. Libott (84).....6253 Hollywood Blvd.
Stanley L. McMichael (25)..6785 Whitley Terrace
Thurston H. Ross (427).....3465 Knollcrest Ave.
John W. Salmon (208).....2912 Brighton Ave.
D. D. Sayer, Jr. (278).....4100 E. 9th St.
George L. Schmutz (192)..8703 Santa Monica Blvd.
Charles B. Shattuck (110)..2510 S. Vermont Ave.
Ivan A. Thorson (199).....500 Corporation Bldg.
Fred E. Vincent (212).....3440 Winslow Drive
Richard C. Willis (321).....2221 W. 21st St.

Oakland
W. S. Guilford (46) Athens Athletic Club.....
.....12th & Clay Sts.
James G. Stafford (54).....5820 Presley Way

Orange
David L. Montonna (416)....109 E. Chapman Ave.

Pasadena
Louis M. Pratt (411).....164 N. Hudson Ave.

Sacramento
Mark Cheesman (189).....2964 Govan Way
A. J. Delano (126).....809 J St.
Thomas G. Mapel (367).....809 J St.

San Francisco
George I. Noyes (295).....444 California St.

Southgate
Louis R. Ardouin (205).....2931 Willow Place

South Pasadena
Frank C. Wood, Jr. (326).....1601 Ramona Ave.

Wilmington
Thomas Francis Mason (151).....Box 122

CONNECTICUT

Hamden
Henry Musch, Jr. (157).....42 Thornton St.

Hartford
Joseph P. Kennedy (24).....720 Main St.

New Haven
Wm. M. Hotchkiss (436).....205 Church St.
Charles T. Lincoln (265).....205 Church St.

Stamford
Richard W. Fitch (231).....292 Main St.

Waterbury
George B. Horan (275).....115 Randolph Ave.

DISTRICT OF COLUMBIA

Washington
Harold E. Doyle (82).....738 15th St., N. W.
Joseph A. Herbert, Jr. (69).....515 E. Capitol St.
A. C. Houghton (72).....909 15th St., N. W.
Morton J. Luchs (178).....1505 H St., N. W.
F. Eliot Middleton (280).....Investment Bldg.
R. Marbury Stamp (258).....1421 H St., N. W.
Charles H. Tompkins (337)..1630 Connecticut Ave.
Curtis Walker (196).....Tower Bldg.

Members in Government Service:

Frederick M. Babcock (435)..Fedl. Housing Adm.
Wm. D. Burkheimer (309).....
.....(FHA) 3726 Connecticut Ave., N. W.
Warren S. Dean (313).....(HOLC) 1619 R St.
Leonard Downie (296).....HOLC Bldg.
Ayers J. duBois (107).....Federal Housing Adm.
J. W. Graham (83).....(FHA) Vermont and K St.
Cuthbert E. Reeves (19).....511 HOLC Bldg.
Geo. P. Williams (387).....410 HOLC Bldg.
Carroll Wright (314).....410 HOLC Bldg.

FLORIDA

Fort Myers
Harry J. Wood (187).....1112 1st St.

Jacksonville
V. M. Covington (48).....1316 Graham Bldg.
Louis R. Fendig (44).....2nd Fl. Buckman Bldg.
Myron L. Howard (73)....516 Professional Bldg.
J. Alvin Register (4).....114 Graham Bldg.
Bainbridge Richardson (59)..117 W. Forsyth St.
Walter D. Shelly (217).....414 Greenleaf Bldg.
L. K. Tucker, Jr. (150).....319 W. Forsyth St.

Lakeland
John L. Wright (243).....117 S. Tenn. Ave.

Miami
Hollis Bush (98).....P. O. Box 1030
Kenneth S. Keyes (115).....13 W. Flagler St.
Adrian McCune (74).....1017 Security Bldg.
D. Earl Wilson (80).....1017 Security Bldg.

Orlando
George F. Brass (160).....P. O. Box 1052
Harold V. Condict (161).....Box 1052
C. W. Rex (42).....Box 293
J. C. Stewart (166).....715 State Bank Bldg.

Sarasota
Fred L. Palmer (127).....482 Main St.

St. Petersburg
John B. Green (308).....11 4th St., N.
Warren P. Hunnicutt (338).....302 Central Ave.

Tampa
Charles P. Glover (139).....
.....811 Citrus Exchange Bldg.

Vero Beach
Frank R. Jewett (143).....P. O. Box Q

West Palm Beach
Frank J. Anderson (223).....611 Harvey Bldg.

GEORGIA

Atlanta
Bryan M. Grant (147).....206 Grant Bldg.
Robert R. Otis (256).....15 Auburn Ave.

HONOLULU, T. H.

Charles J. Pietsch (417).....927 Fort St.

ILLINOIS

Chicago
Graham Aldis (365).....53 W. Jackson Blvd.
Louis B. Beardslee (405).....100 N. LaSalle St.
Kenneth Calhoun Brown (210).110 S. Dearborn St.
Harry S. Cutmore (194)..838 1st Natl. Bk. Bldg.
Dominick Dunn (370).....1330 Morse Ave.
Newton C. Farr (400).....140 S. Dearborn St.
Harry Goldstine (350).....134 N. LaSalle St.
Earl George Gubbins (383).....6015 Lincoln Ave.
Arthur B. Hall (403).....407 S. Dearborn St.
John P. Hooker (52).....140 S. Dearborn St.
A. K. Hornof (173).....1411 1st Natl. Bk. Bldg.
Ward T. Huston (209).....110 S. Dearborn St.
Isaac Keim (324).....2526 S. Wabash Ave.
Arthur Kruggel (341).....4865 Broadway
Walter R. Kuehnle (124).....140 S .Dearborn St.
Mark Levy (9).....7 S. Dearborn St.
Paul C. Loeber (399).....111 W. Washington St.
Ernest H. Lyons (195).....120 S. LaSalle St.
William C. McLennan (414)..6675 Northwest Hgy.
Francis E. Manierre (402).....5 S. Wabash Ave.

Donald T. Morrison (382)..100 North LaSalle St.
William E. Mosby (297).8032 Cottage Grove Ave.
Hyde W. Perce (406).....40 N. Dearborn St.
Lester W. Porter (407).....231 S. LaSalle St.
Geo. R. Quin (191).....36 S. State St.
Gilbert H. Scribner (401).....1st Natl. Bk. Bldg.
Henry George Slavik (301).....10 S. LaSalle St.
Paul Steinbrecher (409).....7 S. Dearborn St.
John Milton Trainer (404)...30 N. Michigan Ave.
Percy E. Wagner (318) F. H. A., 134 N. LaSalle St.
Herman O. Walther (363)..215 W. Wacker Drive
J. Soule Warterfield (120).....8 S. Dearborn St.
Albert H. Wetten (408)....141 W. Jackson Blvd.

Galesburg
Ralph V. Field (168)...203 Bk. of Galesburg Bldg.

Joliet
William W. Mollan (288).....405 D'Arcy Bldg.

Peoria
James H. Finnegan (428)...415 Peoria Life Bldg.

Waukegan
Leo Dailey (388).....218 Washington St.
Oscar Soderquist (125).....22 Maple Ave.

INDIANA

East Chicago
Leonard C. Smith (440)...4534 Indianapolis Blvd.

Gary
Charles D. Davidson (244).....504 Broadway
J. R. Davidson (123).....504 Broadway

Hammond
George N. Becker (245).....7407 Jackson Ave.
Samuel C. Ennis (203).....1st Trust Bldg.

Indianapolis
George A. Kuhn (35).....706 Guaranty Bldg.

IOWA

Cedar Rapids
John J. Wagner (266)..408 American Trust Bldg.

Des Moines
Arthur S. Kirk (188).....900 Grand Ave.

Sioux City
Willard L. Frost (21).....Security Bank Bldg.

KANSAS

Hutchinson
J. C. McNaghten (116).....1st Natl. Bk. Bldg.

Topeka
David Neiswanger (426).....115 W. 6th Ave.

KENTUCKY

Louisville
I. Sidney Jenkins (334)....Louisville Trust Bldg.
Paul F. Semonin, Sr. (359).....321 Starks Bldg.

LOUISIANA

Shreveport
T. S. Neal (224).....330 Ricou-Brewster Bldg.
R. S. Whitten (351).....210 Milam St.

MARYLAND

Baltimore
Oregon Milton Dennis (132).....
W. E. Ferguson (47).....100 E. Pleasant St.
Harry E. Gilbert (18).....2 E. Lexington St.
Albert C. Hofrichter (162)....2 E. Lexington St.
Chas. H. Steffey (88).....336 N. Charles St.

MASSACHUSETTS

Boston
W. H. Ballard (41).....45 Milk St.
Edward F. Cassell (122).....18 Tremont St.
James D. Henderson (169)....209 Washington St.
Norman W. Kenny (10).....82 Devonshire St.
John C. Kiley (397).....45 Bromfield St.
Robert C. Nordblom (336).....18 Oliver St.

Brocton
Charles H. McKenney, Jr. (423).....106 Main St.

Fall River
J. Frederick Beckett (167).....49 Purchase St.
Myer Markell (165).....Granite Block
Everett N. Slade (63).....57 N. Main St.

Lowell
John C. Percival (233).....36 John St.

Springfield
Henry M. Clark (287).....100 Broadway
Bion T. Wheeler (339).....1562 Main St.

Worcester
Maurice F. Reidy (8).....2 Foster St.

MICHIGAN

Detroit
Judson Bradway (392).....533 Majestic Bldg.
Matthew Carey (389).....2200 Buhl Bldg.
George W. Drennan (358)....300 Penobscot Bldg.
Guy S. Greene (394).....300 Lafayette Bldg.
Henry N. Johnson (390)....300 Penobscot Bldg.
Alfred W. Palmer (312).1920 Union Guardian Bldg.
Edmund T. Paterson (385)..3050 E. Grand Blvd.
Leonard P. Reaume (393).....2150 Buhl Bldg.
George C. Sexauer (395).....2150 Buhl Bldg.
William A. Tanney (434)..First Natl. Bank Bldg.
Clarence S. Vaughn (422).....
.....2103 First National Bank Bldg.
Carl S. Wells (391).....2706 Eaton Tower

Grand Rapids
J. G. Lloyd Alexander (246)....616 Murray Bldg.
Isaac Blandford (234)..100 Federal Square Bldg.
Leon T. Closterhouse (247).....
.....American Home Security Bank
John Garfield Emery (304).....
.....205 Federal Square Bldg.
Harry J. Fuller (235)....The Michigan Trust Co.
Walter S. Palmer (193).104 Federal Square Bldg.
Arent Van Stensel (248).....
.....1006 G. R. Savings Bank Bldg.
Charles H. Warden (229).....
.....535 Michigan Trust Bldg.

Lansing
Edward G. Hacker (291).....228 S. Capitol Ave.

Pontiac
Paul A. Kern (134).....1st Natl. Bk. Bldg.

MINNESOTA

Duluth
Richard W. Northup (379).....17 Phoenix Bldg.

Minneapolis
Fred L. Chapman (441).....115 S. 5th St.
Norman L. Newhall (32).....519 Marquette Ave.
Edwin L. Somerville (30).....615 Second Ave., S.
J. Frederick Sutherland (331).....
.....1477 Northwestern Bk. Bldg.

MISSISSIPPI

Jackson
J. O. Manning (299).....3012 N. State St.

MISSOURI

Clayton
Gunther Meier (319).....18 N. Meramec

Joplin
Rolla E. Stephens (264).....711 Virginia Ave.

Kansas City
George M. Bliss (360).....17 E. 10th St.
C. F. Curry (345).....921 Baltimore Ave.
E. F. Pierson (289).....311 Commerce Bldg.

St. Louis
W. C. Bernard (91).....317 N. 11th St.
William W. Butts (93).....803 Chestnut St.
Herbert O. Byrd (302).....818 Chestnut St.
Charles J. Daly (94).....801 Chestnut St.
Otto J. Dickmann (225).....623 Chestnut St.
Chester A. Dougherty (249).....109 N. 7th St.
John H. Farish (201).....713 Chestnut St.
Grover Godwin (418).....913 Ambassador Bldg.
Joseph B. Hall (2).....1311 S. 39th St.
Joseph W. Hannauer (15).....811 Chestnut St.
Monroe H. Rodemyer (218).....109 N. 8th St.
N. S. Wood (131).....709 Chestnut St.

NEBRASKA

Lincoln
C. C. Kimball (381).....228 Stuart Bldg.

Omaha
C. D. Glover (67).....1221 City Natl. Bldg.
Lewis C. Sholes (23).....305 Paterson Bldg.
Clinton B. Stuht (33).....Aquila Court Bldg.

NEW JERSEY

Atlantic City
Maurice A. Kelley (325)...20 S. Tennessee Ave.

Butler
Frank B. Fay, Jr. (171).....Fayson Lake

Camden
Ralph D. Baker (60).....924 Broadway
W. W. Chalmers (63).....4th & Federal Sts.
J. William Markeim (86).....4th & Federal Sts.
Abraham J. Rosenfeld (213)....114 N. Broadway
Leon E. Todd (340).....2623 Westfield Ave.
Philip Zinman (95).....333 Arch St.

East Orange
Frank H. Taylor (6).....520 Main St.
Harry A. Taylor (108).....520 Main St.

Elizabeth
John K. Leeds (99).....286 N. Broad St.
B. B. Miller (53).....215 Broad St.
Burton Thompson (43).....18 W. Jersey
Max Tieger (112).....207 Broad St.

Hackensack
Isidoro Quintana (78).....Court House Square

Jersey City
George E. Dugan (236).....345 Central Ave.
Percy A. Gaddis (22).....Jersey Journal Bldg.
D. E. C. Somers (175).....700 Bergen Ave.
R. E. Thompson (419)..Centl. R. R. of N. J. Term.

Linden
John Fedor (65).....540 S. Wood Ave.

Metuchen
J. K. Powell (77).....Oak Hills

Newark
Murray Apfelbaum (38).....786 Broad St.
John J. Berry (56).....982 Broad St.
Jos. L. Feibleman (66).....17-19 William St.
George Goldstein (413).....972 Broad St.
Franklin Hannoch (49).....14 Park Place
Louis Herman (70).....60 Park Place
Charles Frederick Kraemer (366)..776 Broad St.
John A. Linnett (85).....29 Elizabeth Ave.
E. J. Maier (75).....988 Broad St.
Joel Schlesinger (87).....31 Clinton St.
Harry J. Stevens (200).....478 Central Ave.

New Brunswick
Jas. A. O'Connell (186).....392 George St.

Newton
A. N. Lockwood (433).....17 Main St.

Ocean City
Elmer Jackson Pearl (330).....810 Ocean Ave.

Perth Amboy
Morris Goldfarb (109).....265 Madison Ave.

Ridgewood
Frederick A. Tetor (364)...1 E. Ridgewood Ave.
Samuel S. Walstrum (106).....Ridgewood

Rutherford
Charles A. Van Winkle (113)..1 & 2 Station Sq.
Theodore Van Winkle (117).....1 Station Sq.

NEW MEXICO

Albuquerque
Joseph P. Deasy (377)....925 W. New York Ave.

NEW YORK

Buffalo
A. P. Allingham (3).....63 Niagara St.
P. V Bowen (141).....1006 Ellicott Sq.
Walter W. Cohn (81).....155 Pearl St.

Mechanicville
Franz H. Moak (40).....37 N. Main St.

Metropolitan New York

Brooklyn

Stephen F. Barrera (133).....191 Joralemon St.
George Baur (170).....2609 Clarendon Rd.
James B. Fisher (57).....160 Remsen St.
George H. Gray (17).....310 Ashland Place
Bernard F. Hogan (29).....451 5th Ave.
Arthur J. Horton (183).....1214 Flatbush Ave.
George S. Horton (184).....59 Lafayette Ave.
Frank M. McCurdy (39).....158 Remsen St.
James F. Matthews (76).....215 Montague St.
M. C. O'Brien (190).....798 Nostrand Ave.
Charles Partridge (92).....397 Flatbush Ave.
Lewis H. Pounds (128).....32 Court St.
Fenwick B. Small (31).....1124 Myrtle Ave.
R. W. Walden (89).....162 Remsen St.

Bronx

Herman A. Acker (279)...318 E. Kingsbridge Rd.
Samuel E. McRickard (292)...400 E. Fordham Rd.

Manhattan

Edward J. Crawford (373).....225 Broadway
Dalton Granger De Witt (315)..22 W. 48th St.
A. N. Gitterman (45).....45 E. 49th St.
Bracton Goldstone (68).....10 E. 40th St.
Frank D. Hall (159).....393 7th Ave.
John R. Hoyt (290).....17 E. 42nd St.
Robert Huntley (214).....67 Liberty St.
S. E. Kazdin (269).....70 Pine St.
Clarence C. Merritt (357).....50 E. 42nd St.
Charles W. Morrison (270).....67 Liberty St.
James R. Murphy (437).....217 Broadway
Henry Musch Jr. (157)..330 W. 42nd St., c/o HOLC
Irving I. Rosenbaum (179).....384 Broadway
David Vogel (368).....150 Broadway

Nassau County

Richard T. Childs (273)....222 Front St., Mineola

Queens County

Armand Brunswick (327).....
.....90-26 161st St., Jamaica
William F. MacDermott (198).....
.....89-70 162nd St., Jamaica
Axel J. Swenson (272).....
.....41-27 29th St., Long Island City

Westchester County

Robert A Anderson (259).34 E. 1st St., Mt. Vernon
Stephen L. Angell (220).30 E. Parkway, Scarsdale
Vernon N. Bailey (322).162 Main St., White Plains
Edward C. Heald (222)..20 S. Broadway, Yonkers
Edward H. Hufnagel (250).....
.....28 E. 1st St., Mt. Vernon
Albert W. Lockyer (294).....
.....Depot Plaza, White Plains
Paul Wegener (90).....2 Hudson St., Yonkers
Edward M. West (305).....
.....1 Martine Ave., White Plains

Rochester
Abraham Berghash (219)....130 Clinton Ave., S.

Schenectady
Wm. Garner Bee (415).....277 State St.

Syracuse
James H. Dawley (333).....121 E. Genesee St.
Edward Eagan (271).204 Starrett-Syracuse Bldg.

NORTH CAROLINA

Asheville
B. H. Sumner (332).....Asheville

Charlotte
S. T. Henderson (20).....P. O. Box 1128

OHIO

Akron
John C. Kyle (102).....520 S. Firestone Blvd.
Fred E. Smith (298).....
.....608 Broad Blvd., Cuyahoga Falls
W. F. Voges (105).....1109 S. Main St.

Alliance
L. D. Scranton (100).....341 E. Main St.

Canton
Mark Hambleton (146).....417 Mellett Bldg.
William J. Uebelhart (97).....419 Mellett Bldg.
A. Ray Walters (439).....524 Rickert Bldg.

Cincinnati
Howard R. Burgess (176).....104 Neave Bldg.
Fred Droege, Jr. (154).....104 Neave Bldg.
J. George Ege (335).....3040 Urwiler Ave.
James W. Farrell (149).....1142 Herschel Ave.
John H. Frey (156).....7 Navara Apts., Sta. D
James J. Grogan (180).S. W. Cor. 5th & Main Sts.
Albert J. Mayer (204)....1515 1st Natl. Bk. Bldg.
P. Lincoln Mitchell (181).....
.....S. W. Cor. 5th & Main Sts.
C. Stott Noble (202).....3428 Slettenius
Michael J. O'Byrne (429).....4th and Vine St.
Russell Price (152)...S. W. Cor. 5th & Main Sts.
Walter S. Schmidt (111).S. W. Cor. 5th & Main Sts.
Lewis R. Smith (139).....409 American Bldg.
John B. Spilker (155).....104 Neave Bldg.
L. F. Steele (310).....209 W. 7th St.

Cleveland
Talmage D. Auble (262).....15509 Madison Ave.
Robert F. Berwald (300)..1220 Williamson Bldg.
Ben B. Beyer (34).....1425 Williamson Bldg.
James G. Bingham (328)..1227 Williamson Bldg.
Raymond T. Cragin (282).825 Natl. City Bk. Bldg.
W. J. Crawford, Jr. (323)...720 Cuyahoga Bldg.
Victor J. Free (431).....1105 Chester Ave.
Walter R. Granger (285)..310 Hippodrome Bldg.
Joseph J. Haas (164).....200 Marshall Bldg.
Joseph Laronge (103) .....600 Union Trust Bldg.
Edwin H. McIntosh (283).....
.....1029 Society for Savings Bldg.
Warren L. Morris (251)..420 Natl. City Bk. Bldg.
E. L. Ostendorf (14).....1105 Chester Ave.
Carl A. Palmer (286).....850 Euclid Ave.
Max J. Rudolph (281).....1105 Chester Ave.
Carlton Schultz (37).....1223 Schofield Bldg.
Alexander S. Taylor (142)....1930 Union Tr. Bldg.
V. C. Taylor, II (153)....1930 Union Trust Bldg.
Wm. J. Van Aken (284).....1715 Euclid Ave.

Columbus
Charles F. Johnson (412).....8 E. Long St.

Dayton
Rufus Lisle (438).....Winters Bank Bldg.

Geneva
J. Earl Miller (267).....Miller Bldg.

Massillon
Charles N. Hostetter (329)..716 Lincoln Way, E.

Medina
Claude L. Baker (129).....R. R. 7

Springfield
H. S. Kissell (5).....927 1st Natl. Bk. Bldg.

Toledo
Claude A. Campbell (211)...707 Ohio Bank Bldg.
Geo. P. Crosby (252).....413 Madison Ave.
Howard Etchen (136).....725 Adams St.
Donald F. Hiett (396).....622 Jefferson Ave.

OKLAHOMA

Tulsa
Clyde A. King (432).....310 Beacon Bldg.

PENNSYLVANIA

Bethlehem
Wm. C. Bader (163).....214 Odd Fellows Bldg.

Erie
Carl G. Wright (361).....204 Marine Bank Bldg.

Harrisburg
Evan J. Miller (148).....213 Locust St.

Lancaster
Harry W. Butts (114).....24 E. Orange St.

Lansdowne
W. Raymond Evans (118)..19 N. Lansdowne Ave.

Philadelphia
Philip N. Arnold (174).....123 S. Broad St.
Boyd T. Barnard (237)....Lincoln Liberty Bldg.
Frederick A. Bond (330).....5433 Baltimore Ave.
E. L. Carlson (62).The Parkway at Fairmount Ave.
C. Harris Colehower (145).....5942 Chestnut St.
Frank P. Felton, Jr. (268).....37 S. 16th St.
Samuel T. Hall (257).....1500 Locust St.
Roy A. Heymann (362).....213 S. Broad St.
C. Harry Johnson (238).....Packard Bldg.
S. Craig Kane, Jr. (253)....511 Land Title Bldg.
Philip W. Kniskern (1).....1614 Walnut St.
John E. McGovern (316).....919 Sun Bldg.
J. Howard McLaughlin (372)..5512 Florence Ave.
Maurice R. Massey (276).....
.....S. E. Cor. 13th & Green Sts.
William I. Mirkil (226).....1500 Walnut St.
Robert J. Nash (254).....1214 Locust St.
Glyndon Priestman (420).....18 W. Chelten St.
Richard J. Seltzer (255).....15th & Locust Sts.
J. Willison Smith (239).....100 S. Broad St.
Martin Stotz (55).....514 Land Title Bldg.
Ambrose J. Winder (207).....1420 Walnut St.

Pittsburgh
J. W. Cree, Jr. (13).....211 Fourth Ave.

Scranton
C. G. Chappell (376).....Bliss Davis Bldg.

Wilkes Barre
C. A. Leighton (135).Deposit & Savings Bk. Bldg.
Edward L. Lewith (227)....428 Miners Bk. Bldg.

RHODE ISLAND

Providence
Hal Forrester Coombs (172)...211 Waterman St.
James Devine (130).801 New Industrial Tr. Bldg.

TENNESSEE

Johnson City
W. H. Prince (374).H. O. L. C., Hotel John Sevier

Memphis
Percy Galbreath (421)...Columbian Mutual Tower
George W. Person (320)..503 Manhattan Bk. Bldg.

Nashville
J. W. Denis (140).....209 Warner Bldg.

TEXAS

Dallas
Ballard Burgher (398).....
.....617 Republic Natl. Bk. Bldg.
Henry S. Miller (277)...405 Southland Life Bldg.
Lawrence Miller (386).....2729 South Boulevard
John W. Pat Murphy (384)....1420 Commerce St.

Fort Worth
Meredith R. Carb (354).....2547 Greene Ave.

Houston
W. G. Burchfield (274)..803 2nd Natl. Bk. Bldg.
L. A. Casey (353).....923 Shell Bldg.

San Antonio
Paul W. Adams (355)....South Texas Natl. Bank
A. H. Cadwallader, Jr. (352).....Moore Bldg.
L. A. Casey (353).....317 N. St. Mary's St.
Claris M. Elmore (356).....1031 Navarro St.
R. W. Patton (317).....614 Travis Bldg.

VIRGINIA

Alexandria
J. Arthur Younger (311).....Belle Haven

Richmond
John W. Bates (240).....723 E. Main St.
Henry S. Raab (260).....710 E. Main St.
John Sloan (241).....18 N. 8th St.
J. Guthrie Smith (144).....5104 Riverside Drive
Morton G. Thalhimer (221).....1013 E. Main St.

WASHINGTON

Seattle
Nathaniel B. Bender (347)....302 Republic Bldg.
Charles P. Burnett (378).....Box 1860
Leonard Downie (296).....Seattle
Wm. A. Eastman (307).....414 University St.
Walter G. McLean (346).....1108 Third Ave.
J. C. McQuigg (344).....1910 N. 39th St.
A. C. Newell (348).....448 Dexter Horton Bldg.
Ben J. Smith (343).....5252 16th Ave., N. E.
J. H. Sparkman (349).....1108 3rd Ave.
Cecil S. Van Voris (369).....623 Second Ave.
Edwin G. Wendland (342)..845 Bellevue Ave., N.
J. Arthur Younger (311).....1233 E. 38th St.

Spokane
Edward Ross McCory (425)..505 Columbia Bldg.

Walla Walla
C. C. Conner (263).....First National Bank

WEST VIRGINIA

Bluefield
T. O'J. Wilson (293).....409 Peery Bldg.

Charleston
Charles Uhrig (79).....
.....Box 1019, Charleston Natl. Bk. Bldg.

Clarksburg
Lyle B. Hornor (375).....Goff Bldg.

Huntington
H. E. Pilcher (371).....926 6th Ave.

Princeton
S. W. Florence (206).....819 Mercer St.

WISCONSIN

Madison
Henry H. Bush (61).....311 State St.

Milwaukee
K. Lee Hyder (185).....525 E. Michigan St.

ONTARIO, CANADA

London
Bert Weir (138).....156½ Dundas St.

Toronto
Cyril R. De Mara (12).....372 Bay St.
Frank McLaughlin (7) .....84 King St., W.

LIMITED MEMBERS

CONNECTICUT

Stamford
Robert S. Hay (14).....300 *Main St.*

GEORGIA

Waycross
George Fesperman (5).....208 *Parker St.*

INDIANA

South Bend
Richard A. Muessel (18).....205 *Income Bldg.*

MICHIGAN

Flint
Herschel S. Green (16).....904 *Citizens Bank Bldg.*

Grand Rapids
Peter Hoek (19).....750 *Leonard St., N. W.*

Muskegon
William Bush (3).....38 *Diana Ave.*

NEW JERSEY

Elizabeth
R. Mason Kirkland (15).....125 *Broad St.*

Keyport
Samuel De Bow Walker (10)....101 *Atlantic Ave.*

Newark
Rudolph Kruger (6).....11 *Hill St.*

NEW YORK

Mount Vernon
Henry F. Linsmann (17).....126 *Burkewood Rd.*

OHIO

Dayton
George H. Snyder (2).....1040 *Third Natl. Bldg.*

PENNSYLVANIA

Williamsport
Fred B. Wetzel (12).....25 *W. Third St.*

RHODE ISLAND

Pawtucket
Leo V. Boyle (4).....44 *Broad St.*

Providence
Richard A. Hurley (9)....723 *Hospital Trust Bldg.*

TEXAS

Beaumont
Wilhelmine B. Sheffield (20)..727 *San Jacinto Bldg.*

Dallas
Alfred J. Beilharz (13).....6401 *Hillcrest Ave.*

Donna
Jos. Ewing (8).....*Donna*

WEST VIRGINIA

Wheeling
Harry C. Miller (7).....313 *Wheeling Steel Bldg.*

♣ ♣ ♣

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The JOURNAL of LAND & PUBLIC UTILITY ECONOMICS

Founded in 1925 by Richard T. Ely
Published Northwestern University

November, 1935

Federal Ownership and State Finances with Particular Reference to Railways..... *George M. Keith*
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